

OVERSIGHT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

HEARING BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE ONE HUNDRED FOURTEENTH CONGRESS FIRST SESSION ON

EXPLORING THE EXPORT-IMPORT BANK'S CONTINUING ROLE AND
NEED IN THE UNITED STATES EXPORT-IMPORT INDUSTRY AND CON-
SIDERING IMPLICATIONS OF THE BANK'S PENDING CHARTER EXPIR-
ING

JUNE 4, 2015

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THURSDAY, JUNE 4, 2015

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m. in room SD-538 Dirksen Senate Office Building, Hon. Richard Shelby, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order.

On Tuesday, the Banking Committee heard a range of perspectives from a panel of experts and industry representatives who testified on the future of the Export-Import Bank. Today, the Committee will receive the testimony of Fred P. Hochberg, President and Chairman of the Bank, as we consider any next steps in light of Ex-Im's expiring authorization.

As I said earlier this week, after years of calls to reform the Bank right here, I am not convinced that a long-term reauthorization is merited. Many criticisms of Ex-Im Bank involve failures in risk management, which are particularly disturbing considering the 40-percent increase in Ex-Im's exposure limit, which I opposed in 2012.

At a hearing last year, the Inspector General testified on concerns related to, and I will quote him: ". . . several challenges facing the Export-Import Bank in managing the risks inherent in its core business activities."

In recent years, both the Inspector General and the Government Accountability Office, GAO, have identified hundreds of recommendations related to Ex-Im's financial and operational weaknesses. I understand that Mr. Hochberg will address several of these in his testimony before us today.

I think it goes without saying that taxpayers should not be asked to backstop Ex-Im's over \$110 billion portfolio if the Bank cannot adequately manage its risk of loss.

Much has been said about how Ex-Im Bank historically returns money to the taxpayer each year, and I am sure we will hear that today. This does not take into account losses that could occur based on a variety of factors, including economic uncertainty and Ex-Im's disproportionate exposure to several industries, geographic areas, and large, single foreign customers.

Any discussion of the Bank's future I believe must include a serious examination of whether or not Ex-Im Bank can substantially

improve its accounting for these and other risks. I am concerned that the reforms that are necessary may simply not be achievable.

Nevertheless, I look forward today to hearing Mr. Hochberg's remarks as the Committee takes another hard look at the Export-Import Bank.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, for holding today's hearing, and thank you, Chairman Hochberg, for joining us again today. I especially want to thank you, Chairman Hochberg, for the outreach you have done to small businesses in my State, to the Global Access for Small Business Forums that you held in Cincinnati and Mentor, Ohio, in northeast Ohio, and Youngstown, and the roundtables in both Toledo and Columbus. I know you have done the same kinds of outreach virtually almost everywhere in the country.

Congress does our country no favors when it lurches from one self-inflicted crisis to another. At the end of the year, we saw an ideological fight over an eventual expiration of the Terrorism Risk Insurance Program. Last Sunday, portions of the National Security Agency's authority expired. When we have dealt with the Highway Trust Fund, it has been in the form of short-term patches one after another, I believe 30 extensions, something like that. Now we are 27 days away from the Export-Import Bank's authority expiring.

One member of the Republican leadership has committed to a floor vote in June. Another said it should happen in the highway bill extension at the end of July, which most notably is after this expires. This is not a way to do business for this Committee, for this Senate, for this Congress. Ex-Im Bank should be bipartisan and always has been since first authorized at the end of World War II.

According to the *Wall Street Journal*, prior to 2012, the Senate had only once required a roll call vote—only once in 70 years, a roll call vote to reauthorize Ex-Im. The Bank was reauthorized, for example, by unanimous consent for the Senate in 2006 under President Bush and Republican majorities in the House and Senate. The 2006 5-year reauthorization was followed by a 5-month reauthorization in 2011, a 2-year reauthorization in 2012, and a 9-month reauthorization at the end of last year. This history, this recent history—the long-term history has been done right. This recent history of limping from one short-term authorization to another is bad for small business owners who want certainty to plan their investment and hiring but cannot make long-term decisions because of congressional inaction. It is bad for the Export-Import Bank to attract business that will expand U.S. exports and retain the necessary number of talented employees to oversee an expanding portfolio.

It is bad for our economy because it makes the Bank riskier, not safer. It makes it riskier. It hurts our competitiveness.

Of course, Ex-Im Bank is not perfect. No person or institution in a country this large can be. But its work is so important. In today's global economy, we need to support businesses when they sell their products around the globe.

Many on this Committee have argued for fast-track authority and will support the Trans-Pacific Partnership, which, arguably, very arguably, may or may not mean an increase, a net increase, in jobs. But there is no question the Ex-Im Bank means jobs. It is not easy for small businesses to export, but making sure they are aware of and have access to tools like Ex-Im Bank can help them grow.

We know that competitors around the world have their own version of export-import banks. There are about 60 export credit agencies worldwide. We should not put our manufacturers and our exporters at a disadvantage to China, to India, to European countries. It means more manufacturing, more exports, more jobs, particularly higher-paying manufacturing jobs. It is why the work of Ex-Im Bank is so important and why reauthorizing it by June 30th is essential.

I look forward to working with colleagues, especially appreciated the comments on Tuesday from Senators Kirk and Heitkamp and Donnelly, and others who are committed to ensuring that this authority does not lapse for the first time in seven decades.

Mr. Chairman, thank you.

Chairman SHELBY. Mr. Chairman, your written testimony, we have reviewed it. It will be made part of the record in its entirety. If you would sum up your testimony, after that, if the Senate is on schedule, we will have a vote and a break. But we will wait and see. You are recognized.

**STATEMENT OF FRED P. HOCHBERG, PRESIDENT AND
CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES**

Mr. HOCHBERG. Thank you. Chairman, Ranking Member, distinguished Members of the Committee, thank you for inviting me to testify about how Ex-Im Bank equips U.S. businesses to compete in the global economy and add jobs here at home.

Ex-Im Bank complements and works with the private sector. We provide backstop financing so American entrepreneurs can seize global opportunities to create jobs and not get left behind by their foreign rivals. And we have been successful, supporting 164,000 jobs last year alone.

Ex-Im Bank does not pick winners and losers; rather, it serves any eligible American business seeking competitive financing. We are, by definition, demand driven. Of course, our customers pay fees and interest for this service, and as a result, Ex-Im Bank is completely self-sustaining. Last year alone, Ex-Im Bank generated \$675 million for deficit reduction. If Ex-Im Bank is not reauthorized, Ex-Im Bank will no longer be able to generate half a billion dollars in revenue for the taxpayers.

As you know, in May of 2012, Ex-Im Bank was reauthorized with overwhelming bipartisan support—78 Members in the Senate and 330 in the House. And I know our exporters and their workers are pleased to see movement in the Senate with two bills introduced this Congress.

I take very seriously my duty to implement the will of Congress. That is why I have provided each of you with all the documentation outlining Ex-Im's implementation of every single requirement from

the 2012 reauthorization and why I will work diligently to implement any future requirements Congress chooses to enact.

On top of that, Mr. Chairman, we are keenly focused on risk management demonstrated by a low default rate of 0.167 percent as of March 2015. In addition, Ex-Im Bank continues to proactively implement risk management improvements to further ensure we remain faithful stewards of the taxpayer. Let me just name two. We increased staffing in our Asset Monitoring Division by 33 percent, and we went beyond all Federal requirements to implement mandatory ethics training for all employees.

Having run a small business, I know how important it is to continually identify ways to become stronger and sleeker, and we can always do better. And we continually strive to be better and improve the way we operate and serve small businesses. Two particular examples: Davenport Aviation in Columbus, Ohio, and Xante Printing in Mobile, Alabama.

At Ex-Im Bank, we help U.S. exporters to pursue export sales, create jobs, and compete more effectively in global markets. And global competition has ramped up dramatically since our last reauthorization, and it will continue to do so.

American businesses and workers are not simply competing against their Chinese, Russian, or French counterparts. Often they are competing against countries.

Congress, however, has made it clear. They have asked the Treasury Secretary to ratchet down export credits. And while that is the Secretary's responsibility, as I said, I take the will of Congress very seriously. As a result, I recently met with many of my foreign counterparts to discuss exactly that topic, and here is what I learned.

To the contrary, our counterparts intend to accelerate the financial backing for exporters. Their role is clear. When commercial banks constrict financing, export credit agencies fill the gap so that their domestic exporters do not lose sales or workers.

Export-Import Bank is like a fire truck in that sense. You do not sell off the fire truck just because there is not a fire currently burning.

In closing, as this Committee is aware, businesses need certainty to make long-term plans to grow, hire, and innovate. There are now about 80 other export credit agencies around the world aggressively fighting for jobs unlike Export-Import Bank. One of China's export credit agencies recently noted that they doubled their financing in 2014, and they plan to double it again in the next year or two.

We look forward to working with you, Mr. Chairman, and the Committee, to continuing empowering your constituents to export more and hire more American workers.

Thank you. I look forward to answering your questions.

Chairman SHELBY. Thank you, Mr. Chairman.

Since they have not called the vote yet, we will move on to questions.

In 2012, the Export-Import Bank's Inspector General reported that Ex-Im's narrow definition of default may result in an understatement of the Bank's historical defaults. Among other things, the Inspector General noted that Ex-Im's definition of default does

not include technical defaults, which reflect a failure to comply with specific conditions in the loan agreement.

Do you think, Mr. Chairman, that it is a problem that Ex-Im Bank has not properly estimated historical defaults? And what are you doing about it? Are you changing it? And how can you assess future performance at the Bank if you do not have a good sense of historical defaults?

Mr. HOCHBERG. Well, Mr. Chairman, we issue this default report to Congress every 90 days. It is one of the reforms in Congress. The defaults in here are actually cash outlaid, claims paid by the Export-Import Bank. They currently are running less than one-fifth of 1 percent.

In addition, in this report we indicate delinquent payments, which is an indicator of what might possibly default in the future because they are late.

In terms of a technical default, sometimes that is something such as a filing of a financial statement; it could be running a week or two late, or it could be some kind of compliance issue like that. So we are on top of that. We monitor that. But that is not in the definition that Congress has given us.

Congress, by the way, has updated the definition of our defaults four times since 2012.

Chairman SHELBY. Would a technical default also include maybe a violation of loan covenants?

Mr. HOCHBERG. It would depend on—a technical default could be, as I said—

Chairman SHELBY. It could be substantive, could it not, in nature?

Mr. HOCHBERG. It could be substantive, but it would not have any material effect on the ability to repay. If it does, we have a watch list that we produce every single month of credits that are requiring extra scrutiny or troubled credits.

Chairman SHELBY. Mr. Chairman, according to the Export-Import Bank's annual report, the OCP, a Moroccan Government-owned mining company with a questionable history of human rights violations, received over \$92 million in Ex-Im Bank loan guarantees. Several news sources have reported that OCP donated millions to the Clinton Foundation and just recently hosted a Clinton Foundation fundraiser at a five-star luxury hotel in Morocco.

My question is this: How do you ensure the American people that none of the money guaranteed by the American taxpayer has not been used to fund the Clinton Foundation or other unrelated activities once the money is there?

Mr. HOCHBERG. Well, for one, the money has not been disbursed yet, so at the moment the money—we have approved this loan. We have not finished documentation and disbursed it. So no money has been used for that purpose.

Second, all money that is borrowed for a specific transaction relates to the purchase of U.S. goods and services and the other attendant services around that. So that is what the money—they have to show invoices of what the money is used for, and that is when the disbursement is made. So it is when the shipment is made.

Chairman SHELBY. Does it bother you at all if OCP has donated millions to the Clinton Foundation and just recently hosted a fundraiser and we are making them a loan? Does that raise a red flag with you—does that not bother you?

Mr. HOCHBERG. Well, Senator, we look at every transaction. We look in terms of—look at reputational risk, integrity of the transaction. This is a large mining operation in Morocco—

Chairman SHELBY. State-owned?

Mr. HOCHBERG. State-owned—well, let us understand one thing about state-owned. There is a lot of discussion. In the rest of the world, much of the infrastructure in country after country is state-owned. Power plants, transportation, rail, utilities, water services, mining is frequently state-owned. So that is the way that business—whether we like it or not—is, regrettably, done around the world.

This is a good project. It is buying almost \$100 million worth of U.S. goods, creating a lot of jobs here in America, and we obviously make sure that it is creditworthy, environmentally sound, and has no reputational risk.

Chairman SHELBY. Mr. Chairman, in the area of subsidies and free markets, we have that debate, and I think it is a healthy debate. In your written testimony, you state, and I will quote:

It is incumbent upon America to strive to level the playing field in the global export arena—restoring free market factors to their rightful place at center stage of competition.

What does that mean to you?

Mr. HOCHBERG. It means very—

Chairman SHELBY. What does it mean to us?

Mr. HOCHBERG. It means very clearly the rest of the world has a lot more government engagement with their industries and their companies, as you just mentioned, Mr. Chairman. What we want to make sure is that by our financing we level the playing field, so if we use OCP as an example, we want to make sure that the financing package that backs up U.S. exporters is the same financing package that backs up our competitors in China or Germany or much of Europe so that the buyer picks from a free market the best product, the best service, the best quality, not because someone has got their finger on the scale and is providing off-market financing to give their country an advantage.

Chairman SHELBY. We heard testimony a couple of days ago that a little less than 2 percent of American exports rely on or do business with the Export-Import Bank, but 98 percent do not, but they are still exporting. Is that figure about right?

Mr. HOCHBERG. That is right, and that is a good thing.

Chairman SHELBY. OK.

Mr. HOCHBERG. The private sector does a really good job.

Chairman SHELBY. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Hochberg, your charter says that Ex-Im Bank financing should “supplement and encourage, not compete, with private capital.” A lot of wide-body jets, for example, are sold without Ex-Im Bank help. Why can’t everything be financed solely by the private sector?

Mr. HOCHBERG. I wish it were such, but it is not. I guess there are a couple of reasons, Senator. One, we face in the commercial jet area intense competition with Airbus backed by the Governments of Germany, France, and Britain. Each of them has an export credit agency that backs all Airbus purchases. So if we want a level playing field, if we want to make sure there is a level playing field between American-produced aircraft, made through 15,000 suppliers of the Boeing Company, and Airbus, backed by three governments, we need to provide a comparable financing package when warranted.

Additionally, from time to time—we have just come through the worst financial crisis since the Depression when liquidity tightened up and constricted and we had to really step in and fill that gap to keep trade growing and jobs being supported in this country. Since there is more liquidity, since that recession is more and more in our rearview mirror, our lending has dropped. We are doing about half of what we did 2 years ago because banks have come back into the fore, and there is less need for us today than there even was just 2 years ago.

Senator BROWN. Some opponents of Ex-Im Bank—and we have heard them come out with sort of increasing volume—express concerns about management risk oversight at the Bank. The Bank's portfolio has grown in the last 5 or 6 years, since 2009, but the number of employees has not grown by much. Your Inspector General in April noted that, "Uncertainty about Ex-Im's long-term reauthorization is hindering recruitment." There is a whole host of reasons that—the fits and starts and the short-term reauthorization that Congress seems to inflict on a whole lot of Government programs, including certainly yours, have had negative impact on investment, on long-term decisions, and on predictability.

Talk to me, if you would, about how these repeated short-term reauthorizations and possible expirations affect your ability to recruit.

Mr. HOCHBERG. Well, I think that it has certainly made it a challenge to recruit. There is also a bit of a brain drain as people get concerned. You know, our employees are no different than the 164,000 jobs we support around the country. They are worried about their mortgage, they are worried about making tuition payments this fall, and the start and stop about what they do. We have about 450 workers at Ex-Im Bank. I care about them. They do a spectacular job. Why we have a default rate of 0.167 percent is because we have got really good underwriting and really good asset management. And I fear that this debate can jeopardize our ability to retain those people and to bring in new people as it goes on and on.

Senator BROWN. So talk further, if you would—you touched on it in your testimony—about the repeated short-term reauthorizations, the continued threats that Ex-Im Bank will not exist after June 30th. How does it affect your small business customers? You mentioned Davenport in Columbus, Ohio. You mentioned a company in Alabama. I met with probably a dozen businesses, mostly companies I had not heard of. As many companies as I visit around Ohio, there are obviously hundreds and hundreds that I do not know yet. The people that came in that really depend—you know, that gave

up their time and costing their companies money to come here and push, visit Senators and House Members to push for reauthorization, what effect do you see this has on small business customers?

Mr. HOCHBERG. Well, we have seen it firsthand with—one of the tools that small businesses use is our Working Capital Program. We work with their bank, provide a 90-percent guarantee to induce the bank to make working capital loans to support exports. More than a few banks have stopped, have pulled back in light of the uncertainty. They do not want to get into a situation where they have made a commitment, and then if our authorization should expire, they are not able to execute that. We have seen some constriction in working capital lines, forcing—if you are a small exporter with a very small percentage, you might be able to fit that in your regular working capital loans. If exporting is 20 or 30 percent, it probably is too large to fit within your domestic working capital line. So we have seen that.

A lot of what we do for small business is to provide credit insurance so when they sell overseas, we insure their receivable. If they go to a commercial broker for that, commercial brokers are loath to write a policy that may only have 20 days left.

Senator BROWN. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman. And thank you for your service.

We had a hearing I guess a couple days ago, and it became pretty evident that, you know, we are involved in a race to the bottom with these export credit agencies. In essence, the National Manufacturers Association had a witness in here, and I guess it really highlighted more than ever that that is really what we are about, is we are competing with other countries. As you mentioned, many of the companies that are in these countries are state-owned enterprises. The export credit agencies in other countries are putting you, putting our Nation in a place where we are in a race to the bottom to try to “level the playing field.” And I assume you agree with that. Is that correct?

Mr. HOCHBERG. Yes. I mean, the OECD, the Organization for Economic Cooperation and Development, which has something called “the arrangement,” where most industrialized countries are a party to, but, frankly, China, Russia, India, and Brazil are not. We all have a standard. We all have a minimum fee we have to charge, so there is not a race to the bottom.

The challenge is that countries that are not members can do whatever they want. They can be opaque about it, and they cause some of the most severe challenges to U.S. competitiveness.

Senator CORKER. Well I will say, in their testimony they made it pretty clear that it was all about market conditions and it was about meeting, especially in the case of—I used the case of Boeing because their name came up. I have nothing against Boeing, as I mentioned. I like flying in their airplanes. But she did lay out the fact that this is really—it is that. It is a race to the bottom. We are competing against other countries, and I guess I would ask this question. How do you, when you are making these loans to a manufacturer like this, and you know that they are—you are doing this to make it so that a company in another country is able to buy

some type of equipment, just name whatever type, at a lower rate, and yet those companies are competing with other U.S. companies that do not have the benefit of that export credit agency, yours. How do you reconcile that? In other words, in some cases you are actually making American companies disadvantaged because foreign companies are able to purchase goods that are made here in the country at better financing arrangements than they can here domestically. How do you reconcile that?

Mr. HOCHBERG. Well, we do the best we can to level the playing field, and I will give you a specific example. I was in South Africa about a year ago actually this week, and I met with Transnet, which is the rail authority in South Africa. They had a large tender for locomotives. In the end, they divided it, half to the Chinese, half to the United States. I asked the head of Transnet, "Well, what kind of financing terms are the Chinese offering you?" So I would know as a businessman what the competition is. And he said, "Well, they said to me what would I like—10 years, 15 years, 20 years, a grace period? What do I want to make the deal?" We do not do that. We offered—the most we can offer is 14 years.

However, by offering 14 years, maybe we did not equal precisely the Chinese offer, but we got close enough that we were at least able to get half that order and not lose the entire order to the Chinese.

I might just add one last thing. Not surprisingly, about a month or so before the tender was determined, China made a \$5 billion loan to the rail authority for upgrading tracks, signaling, and so forth. Perhaps that is a coincidence, perhaps not.

Senator CORKER. I think you can see why this would be—we understand the business you are in, and I was going to allude to you after 2012 needing to try to get other countries to lower this amount of activity. You alluded to that in your opening comments. But you can tell, I mean, this is an unseemly business to those of us sitting here where basically we have created this entity to create financing to compete with other countries that are basically racing to the bottom.

I guess the other part of your "agenda" is to make sure that smaller enterprises have access to credit, and yet we have looked at your application form, and there is really nothing there that requires them to make sure—or requires you to make sure that you are the lender of last resort. I mean, you can check "Other" on the application form and sign it.

I had an amendment a couple years ago to make sure that Ex-Im Bank was actually the lender of last resort. I know you did not support that. I know Stephen Fincher over in the House is leading an effort to reform Ex-Im Bank. Do you support those types of things for us to know that you, in fact, are the lender of last resort and just do not allow borrowers to easily check an "Other" box?

Mr. HOCHBERG. Well, there are actually four questions they have to answer with seven sub-parts.

Senator CORKER. I understand that. But would you allow that—would you be supportive of that being much stronger so we know, in fact, you are the lender of last resort?

Mr. HOCHBERG. It should be stronger, but let us be clear. You are signing this application. You are committing perjury, fines and imprisonment if you falsify—

Senator CORKER. Not if you check "Other." So will you support much stronger legislation to absolutely ensure that you are the lender of last resort in those cases?

Mr. HOCHBERG. Well, Senator, I guess I believe that—I believe in the certification, and we verify those when warranted. We look—

Senator CORKER. I think the answer is no. Let me just—I think we are going to be pressing for that, and I would love to talk to your office about it. I will just close with this: I was in Eastern Europe recently dealing with a number of different issues, and I have to tell you, I was fairly offended to realize that the Ex-Im Bank basically has taken on some of the Administration's policies without Congress being involved in any way. And as I understood it, Ex-Im Bank was no longer financing coal exports, that somehow or another, you, without a congressional mandate, had decided that if a company wanted to export to Eastern Europe, which is a great market for our coal suppliers, you had decided, the Ex-Im Bank has decided, because the Administration had laid out this policy, that you would no longer do that. I find that to be offensive—not that I am a lover of coal or not a lover of coal, but that you would be able to do that, and I wonder if you could respond to why Ex-Im Bank would take on Administration policies when Congress has not legislated that.

Mr. HOCHBERG. Well, Congress actually put in our charter 23 years ago that we must take the environment into account before making any loan agreement. And during the Bush administration, the Bank was sued and in a settlement, way before I got to the Bank, had to do a consent decree about how we actually had a more rigorous environmental policy. So that goes back to 2006, 2007, and 2008, before I got to the Bank.

So over the 23 years, we have had to adjust our environmental policy to meet the needs of science and industry over and over again. So this is not a recent—something that was just inserted recently.

Senator CORKER. But if we were to change that, you would be perfectly fine with that?

Mr. HOCHBERG. Well, let me say this, I mean—well, we have an environmental standard. That is up to Congress to determine it, and we try and comply with other—the World Bank, other export credit agencies around the world. But I want to be clear. We actually do support the Administration's Climate Action Plan to restrict coal-fired power plants except to the poorest countries, which total about 80 countries now, which have no restrictions. But in the wealthier countries, we do support that provision.

Senator CORKER. Mr. Chairman, thank you. I did not know we were carrying out environmental policy through Ex-Im Bank.

Chairman SHELBY. I did not either. We found out something today, didn't we? Thank you, Senator.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Before I move on to my questions, I would like to enter into the record a list of 244

New Jersey companies over 70 percent which are small businesses that have received Ex-Im Bank financing since 2007.

Chairman SHELBY. Without objection.

Senator MENENDEZ. OK. I fully support a timely reauthorization of the Bank, and I hear regularly from my constituents of the irreplaceable role that the Bank plays in making New Jersey exports competitive on the international market. Many of these companies have come to Washington to explain how Ex-Im Bank has supported their efforts around the world. Others have written to me in support of Ex-Im's reauthorization, and I am speaking for them here today.

Now, I would like to share with my colleagues a story about a situation in Ukraine, something that provides a great example of how the Export-Import Bank can play a critical role in furthering U.S. national security and economic interests.

Ukraine gets fully half of its electricity from nuclear power. Historically, they have been dependent on Russia to manage the used fuel from its plants. After the Orange Revolution, Ukraine moved to break that tie by establishing its own spent-fuel storage facility.

I know about this issue because a New Jersey firm, Holtec International, won the contract to construct that state-of-the-art facility. Because of Russia's economic and military aggression, the new government in Ukraine did not have the resources to go forward with that New Jersey firm.

That is where the Ex-Im Bank comes in. By providing loan guarantees to help manage the risks of investing in this strategically important country, something that the Senate has clearly espoused on by virtue of votes that it has had in the Ukraine Freedom Support Act that I wrote, along with Senator Corker, Ex-Im Bank can make this deal possible. Such a project would bring jobs and income into New Jersey where Holtec is expanding its presence with a new \$260 million manufacturing facility. It would support Ukraine's ability to develop its own expertise and infrastructure and remove a lever of Russian influence in Ukraine. Ukraine would also keep over \$1.5 billion in fees that would otherwise be sent to Russia. Unfortunately, since the contract was awarded, the security situation in Ukraine has not permitted the project to go forward.

Now, we heard some arguments on Tuesday that American firms should essentially sink or swim on their own in international markets, that we do not need additional options to pursue our diplomatic and security goals, even as other nations, including our most significant trading partners and rivals, continue to pour more resources into promoting their exports.

Now, in a world of perfect markets, in a world where all countries wished us well, in a world where no other nation has provided support for the international operations of their industries, that would be an appealing idea. But that is not the world that we live in.

So here is a medium-sized business, not some major corporation, that is on the front line of both nuclear technology and an ongoing national security challenge that would be an important beneficiary of the kind of work that Ex-Im Bank does.

So, President Hochberg, how do you see the role that Ex-Im Bank plays in bolstering U.S. national security and foreign policies of the services that it provides U.S. companies?

Mr. HOCHBERG. Well, thank you, Senator Menendez, and thank you for your support and the many companies we work with in New Jersey.

Let us be clear. Number one, our number one priority is U.S. jobs. That is what we are here to do. We are here to support U.S. jobs through the financing of exports.

That said, obviously economic security and national security go hand in hand. We work with a number of defense contractors who are now moving into commercial fields. Oshkosh is a good example. Darley is another example. There are a number of them. We are financing theirs. But, most importantly, it is about U.S. jobs, but clearly if you have energy security—and you mentioned nuclear. Nuclear is one of the areas that we have been active in. It is one of the areas commercial banks are reluctant to engage in, and certainly reluctant to engage in without our assistance and guarantees. So I think there is a very close relationship between those national security interests, economic security, and jobs.

Senator MENENDEZ. Let me ask you one other question. China has been particularly aggressive in export financing. As of 2013, it extended over \$45.5 billion in export credits, 3 times the amount extended by Ex-Im Bank. So you touch on this in your written and oral testimony. Could you elaborate on the trends you are seeing in export financing by major U.S. economic competitors?

Mr. HOCHBERG. Well, China is right now the largest exporter in the world. We were number one a dozen years ago. I actually believe we could be the number one exporter again because of the technology and innovation.

That said, China has four different state-owned banks that do export credits. We have one. Just one of those, called Sinosure, in 2 years has done about \$670 billion worth of loans and guarantees. It took us 80 years to get to \$590 billion. So they have done more in 2 years than we did in 80 years. And they have indicated they have no interest in stopping whatsoever.

That said, the Secretary of the Treasury has been—we have been working on negotiating that they join an international framework so we have transparency, and we would try and tamp that down. But that is an ongoing negotiation, and it is taking time.

Senator MENENDEZ. Well, Mr. Chairman, I just think that we should not engage in unilateral disarmament, and that is exactly what we will do if we let Ex-Im Bank expire and we are facing global competitors and many countries—China, Brazil, and others—that are helping their companies create the opportunity to penetrate markets, which means jobs here at home.

Thank you.

Chairman SHELBY. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman.

You know, I think we should hopefully reach an understanding of what is and what is not going on here. One of the arguments that supporters of the Ex-Im Bank make is that this is somehow a free policy choice, this is a free lunch. The Ex-Im Bank creates jobs. No jobs are destroyed, no cost to the taxpayer. In economics,

there is no such thing as a free lunch. There is a cost to everything that is provided.

The chairman states in his testimony that over the last couple of decades, the Ex-Im Bank has sent nearly \$7 billion to the U.S. Treasury. I am sure that is true. But if you go back a little further behind that, then we had a period when the Ex-Im Bank was costing the taxpayer direct money in the form of bailouts—in the 1980s, a \$3 billion bailout; in the mid-1990s, about \$10 billion in taxpayer bailouts. And that was at a time when the Ex-Im Bank was a fraction of the size that it is today.

The chairman also testifies that Ex-Im Bank is restoring free market factors to their rightful place. I do not understand how we could come to such a conclusion. It is clear to me that the Ex-Im Bank interferes with the free market.

Now, you may decide that the interference is worthwhile and is desirable, but let us not pretend that it is not an interference in the free market. That is my point. The chairman refers to the Ex-Im Bank finances as filling in the gaps. Well, if there is a gap, then that tells you something.

Here is another way to look at this. If the Ex-Im Bank is creating jobs, if this is to be believed, then it seems to me it must necessarily be the case that the Ex-Im Bank is providing financing that would not otherwise occur, or it is providing it on terms that would not be obtained in the market. Right? That is the only possible way in which you can say that it is creating jobs.

But if that is the case, if the Ex-Im Bank is financing at rates and terms that the market is either unable or unwilling to offer, then that is not the free market. In fact, that is the definition of a subsidy. It is the subsidy that the taxpayers are being forced to pay not in the form at the moment of writing a check, but in the form of not being adequately compensated for the risk that taxpayers are being required to take.

And so I do not think there is even a question that taxpayers are being forced to take this risk. The question is: For whom? If it is to large politically connected corporations, then that strikes me as crony capitalism. If it is less than creditworthy foreign corporations, then we are putting taxpayers at risk to benefit them. None of these outcomes in my view make sense.

Let me ask one specific question of the chairman. When we talk about the jobs that are created, do you net out the lost jobs in the industries where the competitive disadvantage that the Ex-Im Bank confers occurs? So we know, for instance, that airline companies that have to compete with foreign airlines that get the subsidy of cheaper aircraft, miners that have to compete with overseas mining operations that get the subsidy of mining equipment, refineries in the United States that have to compete with foreign refineries that benefit in a similar fashion. It seems to me the lost jobs ought to count. Do you include that in your analysis?

Mr. HOCHBERG. Well, Senator, thank you, and thank you for coming today. First of all, there are a couple of things you mentioned.

Ex-Im Bank has not received a single bailout. From 1934 to 1992, we sent a billion dollars to the taxpayers. After the Federal Credit Reform Act of 1990, from 1992 to 2014 we have sent \$6.9

billion. That is cash that leaves the checking account of the Export-Import Bank and goes to the Treasury. It is the saddest day for our CFO each year because that money leaves our bank account. So let me be clear about that.

We do not pick winners and losers. Companies come to us if they need our financing to compete with overseas competition, and sometimes the markets are not fully free and open in the overseas international market. That is where we compete. That is where we step in, when there is a gap in the marketplace.

We also do something put in Congress since 1968 called an "Economic Impact Review." Economic Impact Review said if we are going to support the export of capital equipment, use the example of mining equipment, we have to make sure that the benefit to the U.S. economy from that will make sure there is a net benefit to our economy. So we do that in each and every one of—we, in fact, look at every single transaction to ensure that—

Senator TOOMEY. So if you are looking at the net, you are acknowledging that there are some who win and some who lose, and then you add it up and see on balance is it a net positive. Is that the way—

Mr. HOCHBERG. We look at—we make sure that there is a net benefit, and the Board, the Board that is Senate-confirmed, takes that into account.

Senator TOOMEY. So how does that not include winners and losers?

Mr. HOCHBERG. Well, it includes—

Senator TOOMEY. You have kind of acknowledged that there are winners, and we count them, and there are losers which we create, but as long as the net we think is positive in our analysis, then it is OK.

Mr. HOCHBERG. Well, the net winners are the United States economy and U.S. jobs. The choice, sir, is they are going to build that mine, and we are going to have U.S. mining equipment or Chinese or Japanese or Korean. So we want the U.S. economy to win and make sure those jobs are here, not elsewhere.

Senator TOOMEY. I see I have run out of time, Mr. Chairman. I appreciate the indulgence. Let me just point out the GAO has come to the conclusion that this does not create net new jobs. It shifts job creation. And in that process, in my view, it certainly is picking winners and losers.

Chairman SHELBY. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. I just want to follow up on this question around jobs.

You know, we talk a lot about the Ex-Im Bank and about jobs, and I believe that the Ex-Im Bank helps create American jobs and spur economic growth. But I also think that the Bank's operations can be improved in certain areas, so I want to follow up on some questions I asked you the last time that you were before this Committee.

As I noted at the hearing last year, the core of the Bank's work is to promote trade by providing financing for foreign companies to be able to buy U.S. goods. Obviously, that helps the U.S. economy.

We want to sell those goods, as you have been testifying to this morning.

But in some cases, the foreign company purchasing those goods also has U.S. competitors, so helping that foreign company can mean that the foreign buyers get a benefit not available to their U.S. competitors.

So I want to start where I left off last time. Before agreeing to finance a deal, just to make sure I hear this right, does the Bank determine whether the number of U.S. jobs that could be lost by helping a foreign competitor is counted into the calculation?

Mr. HOCHBERG. What we look at, Senator Warren, we look at—one, we review every transaction. Congress has made it clear that if the production that would be generated by a capital equipment export exceeded 1 percent of U.S. production, that would trigger a more in-depth review. So if a *de minimis* amount might go on the market, less than 1 percent—that is a threshold established by Congress over 30 years ago—that actually would say that the impact would be *de minimis*, would not be adverse.

Senator WARREN. I am sorry—just so I am understanding what you are saying here, you are saying you do not do the calculation on how many jobs might be destroyed because a foreign company got a financing benefit that was not available to its U.S. competitors unless it hits this much higher threshold. So in all the rest of those cases, even though cumulatively they may be a lot, you are not doing that calculation?

Mr. HOCHBERG. Well, the calculation—what Congress has established for us in 1986 or 1984, 30 years ago, is that we—the threshold is 1 percent.

Senator WARREN. I am sorry. I think what Congress established is you must do the calculation if you hit that high threshold. The question I am asking is whether you do the calculation—is it only in those cases and you are adding up the number of jobs lost and the number of jobs gained?

Mr. HOCHBERG. Well, for example, let me be very clear. Let us use an airline example. We have an airline that provides low-cost service in South Africa. There is no impact on the U.S. economy by that low-cost carrier in South Africa buying U.S. equipment to fly around South Africa. We do not fly there. We do not fly within South Africa. In those cases, no, there is no potential impact on the U.S. economy. So we look at every transaction.

Senator WARREN. So if the foreign buyer has no U.S. competitors, then you say you do not do the calculation. Another way to say it is you have done the calculation, and it is zero.

Mr. HOCHBERG. Well, we review every single transaction.

Senator WARREN. And if there is a domestic competitor, a U.S. competitor for the foreign company that is about to get the financing, do you always then do the calculation of how many jobs might be lost by the U.S. competitor? I am just asking how this works.

Mr. HOCHBERG. At that level, we do it at the dollar level. We do it at the dollar—at the—

Senator WARREN. What does that mean at the dollar level? I am talking jobs.

Mr. HOCHBERG. We will look at the benefit to the U.S. economy of selling that product, how much revenue—

Senator WARREN. I am asking a jobs measure question.

Mr. HOCHBERG. We do not do it on a per job basis. We do it on—at that level, we do it on the economic impact. What was the economic benefit to the United States versus potential any economic adverse impact to the United States?

Senator WARREN. So is there ever a case in which the Bank has decided not to finance a deal because of its potential impact on U.S. competitors and—

Mr. HOCHBERG. Yeah.

Senator WARREN.—particularly on jobs?

Mr. HOCHBERG. Yeah.

Senator WARREN. And is that publicly available?

Mr. HOCHBERG. Well, what happens is, you know, we are—you are at a university. We are not—you know, people do not—universities issue rejection letters. People do not like them from banks. So if we are—

Senator WARREN. Actually, I understood banks did issue rejection letters.

Mr. HOCHBERG. Well, they do not like to issue rejection—so when we sit down with a customer and we look at that situation, we will have that conversation about, you know what, this is an economic impact here, we are going to do a more in-depth study, and this may not pass muster. So in those cases, sometimes they withdrew. I know in one particular case the entity in Latin America withdrew—let me just finish—and what happened? They still built the petrochemical plant. They built it all with foreign equipment. And you know what happened? We still are competing with that petrochemical company.

Senator WARREN. But I am taking from what you are saying that none of this is publicly available. Look—

Mr. HOCHBERG. Sure it is. If we do—if it gets as far as doing the study and there is a vote. But frequently a client pulls out before that time.

Senator WARREN. I am sorry. So you are saying there is public available data on how many times you have rejected a deal because it would cost American competitors jobs?

Mr. HOCHBERG. Our economic impact data is on the board—is available after the fact to—that was one of the reforms they put in. So an exporter can say, “I want to see what was the economic impact study you did on this transaction.”

Senator WARREN. OK. I think I have got it. But you are talking dollars here, and I am asking a question about jobs.

Look, I believe that the Ex-Im Bank helps create thousands of jobs, in Massachusetts and across the country. And it does it while consistently making money for the taxpayer. I just believe that the Bank ought to be doing all it can to promote job growth overall, not helping some companies at the expense of others. And that is why I think that the Bank needs a rigorous process for assessing how its work affects U.S. competitors. And I think the Bank should make those data publicly available—with redactions if needed—I do not want to hurt anybody’s feelings—but that it ought to be there so that Congress and so the public can review it. And I understand that the Bank has taken important steps while it has been under your leadership, and you have moved it in that direc-

tion, and I hope we can continue to work on this to continue to move in this direction.

Mr. HOCHBERG. Let me add, we are the only export credit agency of the 85 around the world that does this. We are the only one that actually goes to the effort to say is there going to be a net benefit to the U.S. economy.

Senator WARREN. Well, I—

Mr. HOCHBERG. We are the only single one. Everyone else says, in my example of that chemical plant, they are going to build it anyway, we can either lose once or we will lose twice.

Senator WARREN. I appreciate that we may be more transparent than some other countries. The question we have to address is whether we are transparent enough and those calculations are obvious enough when we are trying to evaluate jobs.

Sorry for going over, Mr. Chairman.

Chairman SHELBY. Senator Warren, that is a good question you raise, and I think it is important that we find out what it does to our jobs here. And that has not been answered yet, but a lot of people are concerned about it. Look at some of our airlines. As you know, Delta has raised that question. For example, others said, look, they are not getting the financing that their state-owned competitors overseas are getting, which is a subsidy, which they argue, and probably rightfully so, it costs American jobs.

Mr. HOCHBERG. Well, actually, I would—I have heard Delta make this claim. They have never substantiated it. They have never shown where. And, in fact, Richard Anderson just last August indicated they are adding 1,800 new flight attendants this year alone. They are the most profitable airline in the country, perhaps the world at this time.

Chairman SHELBY. We have a vote on the floor. We are going to try to make it. We will come back because we might have some more Senators here.

We will stand in recess until we get back, maybe 15 minutes or so.

Mr. HOCHBERG. Thank you.

[Recess.]

Chairman SHELBY. The Committee will come back to order. Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

Mr. Hochberg, I have watched the discussions, and I have listened to the testimony on Tuesday with regard to what the Bank does and the fact that literally there are—all of our competitive nations that we work with have an entity similar to the Bank that their businesses can rely on in order to compete. And so it seemed strange to me that we would have the challenges that we have heard with regard to the renewal of your ability to continue forward.

And I have tried to search and figure out what it is that is causing the uproar, and I want to try to get to what I think might be part of it. And so I want to ask you some questions here, and I mean this to try to give you the opportunity to explain it.

Mr. Chairman, I apologize. I was in the chair so I was not able to hear what the other testimony was earlier, but—

Chairman SHELBY. We are glad you are back here.

Senator ROUNDS. Thank you, sir. But what I would like to do is just ask a question and then work our way through this and give you the opportunity to respond, sir, as President of the Bank.

I understand that the Bank is part of the Federal Government and that, as a result, there are rules and regulations that they have to abide by. But I am concerned when I see that you as the head of the Bank have been making some rather significant political statements that I think may have caused part of the problem. It only bolsters the concern that the Bank is picking winners and losers.

Now, here is the example that I am speaking of. In 2013, you said, and I quote:

The Bank engages in an important balancing act. In supporting our exporters, we have to weigh the potential impacts on the environment associated with our financing. Without guidelines or limits, ever increasing numbers of new coal plants worldwide will just continue to emit more carbon pollution into the air we breathe. But America cannot do this alone. I strongly support the Administration's efforts to build an international consensus such that other nations follow our lead in restricting financing of new coal-fired power plants.

Mr. President, what you call "carbon pollution" powers a lot of the homes in my home State of South Dakota and a lot of the power on the farms in our part of the country as well. I am concerned that by using what literally is a loaded carbon pollution and making personal statements about which types of exports that you may oppose, the Ex-Im Bank becomes more about advancing policy goals and less about creating American jobs.

Do you think that making this statement was a mistake and gives the opponents of the Ex-Im Bank the ammunition to say that Ex-Im Bank does pick winners and losers?

Mr. HOCHBERG. Well, Senator, thank you for giving me a chance to talk about this, and I am glad we had a chance to meet in your office. I mentioned earlier we have had an environmental policy that Congress has inserted in our charter since 1992. For over two decades, we have been required to look at reasonable assurance repayment and the environmental impact. That is not my doing. That has been in our charter for over two decades.

I mentioned earlier that under the first part of—under the Bush administration, the 2004–06 range, before I got to the Bank, the Bank got sued, and before I got to the Bank, the Bank agreed to a consent decree of how to impact—how the Bank could do a better job to adhere to the will of Congress, which is to take the environment into account.

So the Bank has been doing this, and it has been an evolving policy over the last two decades. So this is not something that I inserted. It is not a personal agenda.

Senator ROUNDS. Can you show me any place where the Congress of the United States has identified carbon pollution as being part of your role in terms of managing the environment?

Mr. HOCHBERG. Well, the environment was put in, as I said—I am happy to share with you the lawsuit that the Bank lost because the—and the court found that the Bank, before I got there, was not taking into account the environment sufficiently, and part of that agreement was some restrictions, some regulation on the amount of carbon. So that precedes me at the Bank.

Senator ROUNDS. I understand that you have an obligation in which you can and are required or expected to promote renewable energy. But I cannot find where you are in a position to determine—and I am just going to ask the question. If an organization walks in and they say, “Look, we have got an opportunity to create and to build a new power plant,” is it your role to then say, “Well, is this a coal-fired plant? And if it is, it is not something that we can do”?

Mr. HOCHBERG. No, we do not look at coal-fired—that is not the issue. We look at the environmental impact, and we look at the amount of high carbon intensity. It is not about for coal or against coal. In fact, Senator, we export coal. We export coal mining equipment. The only thing we have had to do—and, again, it is part of a consent decree—is to look at to what degree the environment is impacted by our export. That was put in by Congress, and, again, the Ex-Im Bank lost a lawsuit about that. I would be happy to share with you the section of the law, and I am happy to share with you the consent decree.

Senator ROUNDS. Mr. President, I think what happens in this particular case is it gives those individuals who have a concern about whether or not you are picking winners and losers, and you should not be picking winners and losers. I think it gives them the opportunity to point to the fact that in this particular case, when it comes to your statements on power plants that are coal-fired, that you do have a desire or an interest in promoting those that are not coal-fired. I bring it up because I think it has got to be clarified, that either you are picking winners and losers and giving people who do not want to see this Bank continue forward, you are giving them the ammo that they want to show that you are picking winners and losers, and that is not the way that it was set up, in their opinion, nor in my opinion.

But I wanted to give you the opportunity to try to correct anything if we are misunderstanding the focus that you think the Bank has got.

Mr. HOCHBERG. I guess all I can say is that we are doing to the best of our ability to follow the will of Congress in terms of taking the environment into account.

Senator ROUNDS. And so what I understand is that you believe that it is the will of Congress that we not promote, as you call it, “carbon pollution” through the creation of coal-fired plants or the use of the Bank to finance coal-fired plants in other parts of the world.

Mr. HOCHBERG. Well, we are open for coal-fired power plants in the 80 or 82 poorest countries in the world. What our current law states is that—

Senator ROUNDS. So you would do it in 80 or 82—

Mr. HOCHBERG. 80 or—they are called “IDA” or “IDA blend,” defined by the World Bank. Those we do not have restrictions at all. In wealthier countries, countries that have options, that have options on renewable, gas, nuclear, the current policy—and it is in our appropriations bill—says that we do not do any coal-fired power plants in those countries where they have a lot of options. Poorer countries, 80 countries in the world, approximately today, we do.

Senator ROUNDS. Is that directed by Congress, or is that a policy that has been created within the Bank itself?

Mr. HOCHBERG. No, that is in our current appropriation language.

Senator ROUNDS. OK. Thank you, sir. I appreciate your comments.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman. I just want to kind of run through this. Basically you are subject to the requirements of NEPA. You have to do an EIS or some kind of environmental assessment on the decisions that you make. There were not any decisions being made regarding carbon. You are sued. As a result, you signed a consent decree that says, yes, carbon will be part of that consideration, right?

Mr. HOCHBERG. My predecessor did, but, yes.

Senator HEITKAMP. Right, but I think that the Bank is under a consent order—

Mr. HOCHBERG. Exactly.

Senator HEITKAMP.—by the court to take that into consideration. It is similar to what happened to EPA when EPA said carbon is not a pollutant, the United States Supreme Court said it could be and you need to take a look at it, that Massachusetts case. And so I just want to make it clear that this is not a policy that came into existence when the President became the President. It is not something that you initiated at the Bank, although you are administering it. And I think it has created controversy here, and as a result, the Kirk-Heitkamp bill addresses this very issue and puts within there that you cannot discriminate against any legitimate business, and that is something that was vetted very strongly during our negotiations on the Kirk-Heitkamp bill with coal companies as well, or I would not sign on this bill. And so I think we have addressed a lot of the concerns that the Senators have expressed regarding picking winners and losers regarding environmental impact on carbon.

And so it does not mean—I guess when you look at the non-discrimination language, not something that was appreciated, but obviously if that passes, it will be administered appropriately by the Ex-Im Bank. Is that correct, Mr. Hochberg?

Mr. HOCHBERG. Yeah. Obviously, we will totally and completely follow the will of Congress, and I should even add that consent decree that you referred to, you know, that is a regulation put in by the court. We made everybody unhappy. We made the environmental community unhappy. We made the exporters unhappy. I would say we left—maybe that makes a good policy when everybody is unhappy. But everybody was unhappy with that outcome.

Senator HEITKAMP. I want to get to another issue that has been raised here, which is the criticism that you do not do enough for small business, that the Bank really represents two major multinational corporations and that, you know, you are the piggy bank for these two large corporations.

I would tell you that I have had a fair amount of experience with the Ex-Im Bank, first working with the Ex-Im Bank and the Bank of North Dakota, a kind of iconic institution that is actually the

State development bank in North Dakota, and they have had this very long relationship, I think, that has been very fruitful for North Dakota exporters.

But I want to have you address what you have done to reach out to the small businesses like you have reached out in North Dakota, whether you think—in fact, in the Kirk-Heitkamp bill we are setting a target of 25 percent, whether you think you can achieve a 25-percent target in the next authorization period as established by that bill.

Mr. HOCHBERG. Well, let me say this—and thank you for your support of the Bank and thank you for proposing one of the bills under consideration, because I know our exporters and their workers are keenly focused on that.

I ran a small business. I am focused on small business. In this fiscal year, we put in an 800 number. Operators are open 8 to 8 Monday to Friday, standing by right now if you would like. If you go on our Web site and you cannot find something, we have an on-line chat. We do all those things to do outreach.

Senator HEITKAMP. I only have so much time, Mr. Hochberg, so do you think you can achieve a 25-percent target in this period of time that we have given you in this reauthorization?

Mr. HOCHBERG. I think that is a very steep target. And the reason I say that is we are demand-driven. People come to us when they need us. Right now banks are doing a little bit of a better job, so in some ways, they have more options. When there is a financial crisis, they come to us. So that is the challenge. I mean, I will work toward any target. We will strive to do better. We are now doing better than 20 percent, which is our current target. But it is difficult to know, because we are demand-driven, what the demand is. So that is the only challenge I say with any particular target in this regard.

Senator HEITKAMP. Finally, obviously, there is a lot of concern—and I think the Chairman expressed some legitimate concern—about reforms. And we are very interested in ongoing activities that the Bank has to address concerns that have been expressed by this Committee and by GAO and by the Inspector General.

Where do you think you are in adapting and adjusting and responding to the concerns that have been expressed about governance of the Bank?

Mr. HOCHBERG. Well, let me say, as I mentioned earlier, you know, these are the reforms that were put in in 2012. We complied with each and every one of them. There are a number of reforms that have been proposed in the Kirk-Heitkamp bill, and there are three other bills that are circulating.

I understand the will of Congress. We will move forward on any of those reforms that are enacted and do our very, very level best to enact them quickly and efficiently. All I am trying to worry about is not creating a burden for small business or more bureaucracy that makes it harder for us to be nimble.

Senator HEITKAMP. Finally, when you look at the Bank and you look at the hard deadline that we have at the end of the month, how disruptive will it be if we allow the charter to lapse and then try and reinstate that? How much additional costs would the Bank experience even if we were able to reinstate it?

Mr. HOCHBERG. Well, I think the uncertainty has already caused a lot of concern. Uncertainty has caused some banks and insurance brokers to pull back. Working capital loan has been somewhat constricted to small businesses. And my fear is that we—there has been a lot of uncertainty. I spend a lot of time convincing foreign buyers we are going to be there and that they can rely on us and rely on the United States.

So I think that even a temporary lapse will have a very negative effect because it makes us less reliable and it makes U.S. companies less reliable, and it puts our workers in jeopardy.

Senator HEITKAMP. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Kirk.

Senator KIRK. Thank you, Mr. Chairman.

I want to brief you on a project near and dear to me, and that is the C919, the Chinese competitor to the Boeing 737, built with \$29 billion in subsidies from the Government of China. We have already seen 400 of these booked. I think all of those orders should have come to the United States. I would say to my colleagues I am for Ex-Im Bank picking winners and losers, and those winners should be Americans, make sure those 400 orders come to the United States.

If you know aviation as I do, an airplane is a black hole of spare parts. It needs an unlimited set of spare parts. All the spare parts for the Boeing 737 are going to be American-originated. In the case of the C919, they will be largely Chinese. For the billions coming on this airplane, I would hope that they come to the U.S.A.

I want to thank Heidi Heitkamp for her great bipartisan work on this coming amendment that we will do to the National Defense Authorization bill to reauthorize you and make sure we win in the competition against the C919.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Merkley.

Senator MERKLEY. Thank you, Mr. Chairman.

You may have already addressed this, and if you have, please let me know. But I wanted to have you explore a little bit about the subsidies that China gives to their exports, including what we have been hearing about the new initiative to devote an additional \$10 billion in export credit to Africa, bringing their total to \$30 billion in export credits to Africa, which is roughly equivalent, I believe, to Ex-Im's global volume for the year.

Mr. HOCHBERG. China is a particularly formidable competitor and particularly in Sub-Saharan Africa. Total U.S. exports to Sub-Saharan Africa are about \$23, \$24 billion, so that is all exports. And as you just cited, China is going to devote \$30 billion of export finance alone.

We see them everywhere—in power plants, infrastructure, mining, perhaps soon aircraft, as Senator Kirk mentioned. So they are a very, very formidable competitor, and particularly so in Sub-Saharan Africa, the fastest-growing region in the world right now.

Senator MERKLEY. And so essentially we have a very unlevel playing field if they are providing finance support for their industries and we are not doing the same?

Mr. HOCHBERG. Well, we exist to try and level that playing field and do the best we can, but we have a little bit one arm tied be-

hind our back in terms of we abide by a number of global guidelines and rules, and China is untethered by that.

Senator MERKLEY. Yes. We have been having a debate here over the fast track and the TransPacific Partnership and a potential transatlantic agreement, and there is a real debate over whether it will create jobs in America or eliminate jobs. But in this case, can't we say that this is 100 percent clear that this financing creates jobs here in the United States of America?

Mr. HOCHBERG. I would say without question, and do not take my word for it. GAO validated our jobs calculation in 2013. Where there were questions, they validated all of our jobs calculations.

Senator MERKLEY. Can you remind us again how many jobs there are at stake here?

Mr. HOCHBERG. We supported 164,000 jobs last year, last year alone; about 1.2, 1.3 billion in the 6 years I have been at the Bank.

Senator MERKLEY. Thank you very much.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. Good morning.

Mr. HOCHBERG. Good morning.

Senator SCOTT. Thank you for being here this morning for such an important topic. I wanted to just share with you two stories from two of our more important employers in South Carolina and just get your response to the comments that they have made to me.

The first one is Sage Automotive Interiors in update South Carolina. They were a part of the Milliken Group initially, and because of the downturn in the economy, Milliken decided to spin them off or basically get rid of them.

Fortunately, the senior management decided to get the capital together, buy that company, and now they are employing more than 600 employees in three locations throughout South Carolina.

For the last 5 years, they have been able to succeed because of their exporting opportunities. Sage has used, according to the company—Dirk Pieper, the CEO, has used Ex-Im Bank backing since its inception to support its export business because it is necessary for them to do so.

And a very similar story from another company, another major player in South Carolina, Grace Management Group. Grace has been around since 1975. They have locations, of course, in Spartanburg, South Carolina, but they also have locations in places where Chairman Shelby has a residence, I believe, in Alabama. And they have done very well, and they have showcases, showrooms in Atlanta, Dallas, and Las Vegas. They do business in 90 countries. It is a wonderful success story from Spartanburg, South Carolina. And they tell me that because commercial banks in the United States are prohibited from using foreign receivables as collateral for loans, Grace has no alternative but to apply for Ex-Im Bank backing to support its international sales support.

Can you comment on whether or not these companies are leading me in the wrong direction or not?

Mr. HOCHBERG. Well, thank you, Senator. In fact, I had a chance to visit Sage on a recent trip to South Carolina. Companies come to us when they cannot find the financing at either comparable or competitive rates so they can compete overseas. Sage is an excel-

lent example of that, and 90 percent of our customers are small businesses, and of the exports we financed last year of \$27.5 billion, a full \$10 billion came directly from small businesses.

Senator SCOTT. I will ask you this question a little differently: According to Sage, commercial banks in the United States are prohibited—is that accurate?—from using these foreign receivables as collateral?

Mr. HOCHBERG. That is correct. Commercial banks will not value a foreign receivable. They will value it at zero. When we insure those receivables through credit insurance, they will then lend, could lend 75, 80, 90 percent against that receivable, creating a real borrowing base so those banks can get the working capital, hire people, get the raw materials, and ship the goods overseas.

Senator SCOTT. So for a business having operations and making sales in 90 countries, not to be able to use a part of those receivables to determine their cash-flow would be a crippling impact if they lost that opportunity?

Mr. HOCHBERG. It totally disables them, and it actually impedes their seeking export sales and the jobs that come with them.

Senator SCOTT. I had a conversation last night—I was invited to dinner with some of my House friends last night, which is a rare opportunity for me. They do not invite me anymore now that I am in the Senate. I am not sure what went wrong, but, Tom, will you talk to those folks for me, please? Thank you very much. And they suggested that there are major players in the aviation world that are very much in opposition to the Ex-Im Bank.

I wonder if some of those players perhaps access something like export financing in other countries, if you are aware of any of those folks that may access—

Mr. HOCHBERG. Well, the regional jets that we all fly on, that Delta deploys and all American carriers, are made in two countries. They are made in Brazil and in Canada. And I know for a fact that Delta Airlines is a major user of regional jets and a major user of export credit financing from the Canadian Government and the Brazilian Government to finance those regional jets. And if any of us fly to New York on the Delta shuttle, you are flying on an Embraer Brazilian plane in all likelihood financed by the Brazilian Government.

Senator SCOTT. I am hoping that I am able to get a seat on that plane the next time I go to New York after this question.

[Laughter.]

Mr. HOCHBERG. Maybe a middle seat.

Senator SCOTT. I am too big of a boy for that conversation.

On the reform package that has been offered by Senator Kirk as well as Representative Fincher, some of the questions that we are pondering as a part of the reform package is to reduce the borrowing authority. Your thoughts on that?

Mr. HOCHBERG. Well, I know there are number of reforms we considered. It concerns me that we would constrict or reduce the amount of lending authority we have at Ex-Im Bank when we have got countries like China—Senator Kirk just showed a picture of the Comac plane, 400 orders. China has given no indication they are going to follow any rules when it comes to financing that. So I would certainly have a concern. Obviously, we will work with Con-

gress on a solution, but I am concerned about restricting our efforts and sending that bad signal. Even if we never get there, the signal and the message is very important that we stand fully behind American workers and American exports.

Senator SCOTT. Mr. Chairman, would you provide me with an additional 30 seconds?

Chairman SHELBY. Go ahead.

Senator SCOTT. Football time 30 seconds.

Chairman SHELBY. I will give you more time.

Senator SCOTT. Thank you, sir.

How about on increasing the reserve requirements?

Mr. HOCHBERG. Well, you know, there are a number of reforms that have been proposed. There are currently four different bills, two from your colleagues in the House and two here in the Senate.

Senator SCOTT. Yes.

Mr. HOCHBERG. What we have done is provided, in the past and continuing, technical assistance to any member who would like to review reform by reform. I think that probably is a more thoughtful way of doing it than just my shooting from the hip here in terms of some of the generalized reforms. But I think that we are looking for a solution, our exporters and their workers are, and we want to work out with this Committee and with the House to find what is the proper oversight so we can make sure that we move forward and give some certainty to those exporters.

Senator SCOTT. Last question, since you said you were not going to answer it, I will ask it anyway. On the pilot program for reinsurance, thoughts?

Mr. HOCHBERG. I think that is a good—we would be interested in pursuing that pilot. If it is in our reauthorization, we certainly would be very much open to that.

Senator SCOTT. In the House, I have supported the Ex-Im Bank in the past, and I will support the Ex-Im Bank today as well or in the future. My concern is that we do need some reforms in the process. I think it is very important for us to figure out a path going forward. And, frankly, if we were able to negotiate something other than a unilateral disarming, I would be open to that as well. So I wanted to get your thoughts and perhaps have a longer conversation with you about the necessity of reforms as we move forward.

Mr. HOCHBERG. Well, if I can just add, you know, we have continually improved the Bank. We had 18 reforms in 2012.

Senator SCOTT. I saw that.

Mr. HOCHBERG. We have complied with all of them. And we are not also just waiting for Congress to come up with reforms. I am very proud of the 450 people at Ex-Im Bank because we are constantly finding better ways to improve, be sleeker, be more thoughtful about risk and more attentive to the needs of workers and taxpayers.

Senator SCOTT. Thank you.

Thank you for the additional time.

Chairman SHELBY. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. Mr. Hochberg, thank you for being here.

Yesterday, Mr. Hochberg, one of the witnesses talked about how the Ex-Im Bank was creating \$140 billion in taxpayer risk to the people of the United States, and I think by that they were referring to the loan guarantees the Ex-Im Bank has made for your customers, the other product portfolios. What has your loss ratio been?

Mr. HOCHBERG. Well, we report our defaults to Congress every 90 days, so every 90 days Congress is updated. Our current default rate is running less than one-fifth of 1 percent, 0.167 percent, less than one-fifth of a percent, and we report that, as I said, every 90 days.

Senator DONNELLY. How is that considered industry-wide?

Mr. HOCHBERG. I would say most commercial banks, apples to apples, are several multiples of that.

Senator DONNELLY. And so when they talk about that, what they are actually talking about is just the loan portfolio that any bank would have, that any operation would have. And so at the end of, you know, just let us say the last 3 years, did you have a profit or a loss at the end of the last 3 years?

Mr. HOCHBERG. We have sent money to the Treasury, last year \$675 billion; the year before, over \$1 billion; and over the last two decades, \$6.9 billion. And that is actual cash that leaves the checking account of the Ex-Im Bank and goes to the Treasury for taxpayer—for deficit reduction. It is not an accounting adjustment. That is actual cash.

Senator DONNELLY. As you know, I am from the State of Indiana. One of our mutual friends, Peter Baranay, has been very important in the operations of the Ex-Im Bank, has run a great company, has used the Ex-Im Bank, has helped in management of it. And I think that is reflective of our State, its small and mid-sized businesses, over 100 companies that have benefited from the Bank in recent years. And, you know, overall, do you think that those 100 companies would have found similar financing opportunities had Ex-Im Bank not been around?

Mr. HOCHBERG. I mean, companies have to certify that we are the lender of last resort, that they could not find comparable, competitive financing on the outside. You mentioned Peter. ABRO is a good example. As they have grown with us, they now are able—they now can find it in the private sector. They could not 3 or 4 years ago. But, frankly, working with Ex-Im Bank, their sales have grown to a point it is now bankable by the private sector and he is able—and if that changes, we would welcome that.

Senator DONNELLY. Which is pretty much almost a built-in formula for success for you and for the businesses, which is they work with you, and it is also good for our banks in that now there is no need for the Ex-Im Bank, and—

Mr. HOCHBERG. In that particular case.

Senator DONNELLY.—we are sending exports overseas and jobs that stay right here in the United States of America.

One other question I wanted to ask you. So if the financing—if the Ex-Im Bank was not there, where would companies—where would some of these small companies get financing if they are sending product overseas? What other opportunities do they have?

Mr. HOCHBERG. Well, frequently what they have to do, which is very bad for business, is demand 100 percent payment in advance,

and the problem is that is not very competitive. So their competitors in China, Germany, Korea, and you name it, sell in open accounts. So with Ex-Im Bank, we are able to provide the financing that they can meet the foreign competition.

I should quickly add in the short-term space, which a lot of the small businesses are operating in, we have seen as many as maybe 20 more export credit agencies focused on short-term and small business in the last couple of years. So I think there is even more competition for small business exporters than there has been in the past.

Senator DONNELLY. Well, I just want to conclude by saying that in Indiana, those over 100 businesses appreciate what the Ex-Im Bank has done. The families who their mom or dad have a really good job and have the chance to buy a home and take them on a vacation, those families really appreciate it as well. And that is the real world. It is not theory. It is not, you know, some economic postulation. It is the real world of someone who gets a job because products are being shipped overseas that were made in Muncie, Indiana, rather than in Beijing or somewhere else. So thank you very much.

Mr. HOCHBERG. Thank you.

Chairman SHELBY. Senator Cotton.

Senator COTTON. Mr. Hochberg, thank you for being here this morning. On Tuesday, we had a very lively panel between ardent opponents of Ex-Im Bank and equally ardent proponents of the Bank. One point we discussed was an analogy to arms control that the United States should not unilaterally disarm in the export credit financing world.

There is disagreement about how much of the Bank's activities are done for that reason, to meet foreign competition from foreign ECAs. Veronique de Rugy from the George Mason Mercatus Center, who, as you know, is an opponent of the Bank, estimates it at about 30 percent of the Bank's portfolio. Linda Dempsey, from the National Association of Manufacturers, an equally strong proponent of the Bank, disputed that, did not have the numbers at her fingertips. Can you tell us how much of your portfolio is made to meet competition from foreign ECAs?

Mr. HOCHBERG. It is about two-thirds to meet foreign competition and about one-third or so is where there is not availability. So sometimes—frequently, that is a lot of the small businesses, there just simply is not the availability on any competitive terms.

One exporter said, "Yes, I can get financing in Qatar, but they want 22 percent interest." And he said, "I do not need to do the sale at 22 percent interest. That essentially takes"—"I would have a loss in that case.

But we verify that in the application. The applicant has to certify—and I answered earlier—under perjury why they need the loan from us, why they need the support or the guarantee from us, why they need our financial assistance.

Senator COTTON. Even Ms. Dempsey, who allowed that this is the strongest argument in favor of the Bank, had said in a world where we were not unilaterally disarming but multilaterally disarming, that she would not think the United States needs to have an export credit agency like the Ex-Im Bank. Do you agree with

that assessment? If no other government had an export credit agency, the Export-Import Bank would not need to exist here?

Mr. HOCHBERG. Well, the challenge with that is—and I met with a lot of my foreign counterparts just in the last few weeks—all of us, including the Ex-Im Bank, really filled in a gap during the financial crisis. Our lending during the financial—in 2012 was about double the level today. So when banks constrict lending—and Basel III is one of the impacts on that in terms of particularly longer-term loans. I use this analogy: We are a little bit like the fire truck. You know, we respond to an emergency, and then we just leave it parked in the garage when there is not an emergency. So even if everybody does—if everybody got rid of their export credit agency, I think they would invent them once again when we have a financial crisis and banks are reluctant to lend, as they were just a few years ago.

Senator COTTON. So it sounds like you think we would need to maintain the Ex-Im Bank even if we can negotiate a treaty with the other few dozen countries that have their ECAs.

Mr. HOCHBERG. Well, first of all, there are about 85 export credit agencies around the world, and some are members of an international agreement called the “Organization for Economic Cooperation and Development” that does provide some regulation, guidelines, but many—China, Russia, Brazil, India—are not a member. So they have very opaque—they can offer any terms they want, as long as they want, as low an interest as they want, subsidize rates, and we really are not able—that is a real threat to U.S. competitiveness.

Senator COTTON. OK. One common point that is made was made on the panel Tuesday, and you have made it this morning on a couple occasions, and that is, the lack of private financing and how you can be a lender of last resort. The obvious response to that is if there is no market in the private financing markets for a particular project, maybe that is the market sending a signal that the profit is not—or that the project is not going to be profitable or that it is too risky. What is your strongest response to that?

Mr. HOCHBERG. Well, first of all, we are countercyclical. When the banks pull back—I mean, we have the best private sector in the world, the best private sector banking. But when the banks pull back, sometimes they pull back for internal reasons. We are countercyclical, as I mentioned. Senator, in 2012, we did over \$36 billion worth of loans, guarantees and insurance, and last year we did 20. So there was less of a need for us. There was not zero need. There was less of a need.

Projects like nuclear power plants, certain other technologies are just harder to finance. Nuclear power plants, you know, need an 18- to 20-year loan. That is very hard to secure in the private sector. So we do fill in countercyclical and also products and services that are particularly hard to finance.

Senator COTTON. OK. I would like to discuss one particular example, just to get a sense of your thinking on it. This has been in the news lately. This is reports from Space News as well as the Sydney Morning Herald, the NewSat deal. The Ex-Im Bank helped underwrite loans to NewSat, a startup satellite company in Australia, that was going to buy a satellite from Lockheed Martin. I

think just 2 weeks ago, it was, the bankruptcy court in Delaware said that NewSat is in default, that Lockheed Martin, which has received \$193 million for this satellite, now owns it. Most of that money came from the Ex-Im Bank.

Lockheed Martin is a top-tier defense contractor. They make some of the best products in the world. Australia is a First World country. They are part of our Five Eyes intelligence partnership. This is not a Third World country that does not have the rule of law, property rights, independent courts, and so forth.

If Australian-based NewSat could not get private market financing to buy this satellite, does that not send a signal that maybe this small startup satellite company that now is bankrupt, after widespread reports of mismanagement and overspending on travel and luxury yachts, should not have gotten money to buy a satellite in the first place?

Mr. HOCHBERG. Well, Senator, there are two countries in the world that make satellites: the United States and France. And, frankly, we go toe to toe with them all the time. France's export credit agency fully supports these satellite sales. So of late, competition has increased, and we have had to do more in satellites to counter that foreign competition. Similar to nuclear, satellites are particularly acompetitive and harder to finance. So——

Senator COTTON. And France's agency was part of this project. They face losses as well. They have greater chances of recovery, though, than does the American taxpayer.

Mr. HOCHBERG. Well, in this case——

Senator COTTON. One might say we should have let France finance this sale, and they could have taken the entire loss themselves as opposed to imposing it on the American taxpayer.

Mr. HOCHBERG. Well, first of all, customers pay us a fee. The fee fills our loan loss reserve account. So we are so—we are far ahead of the game here. We are still in the negotiation. This satellite is not completed. It is not due to launch. There is a lot of time between now and that point. We cannot write this book from the last chapter forward. So we still have a ways to go. In no way is this a done deal.

Second, these were jobs in the United States. We supported 250 jobs at Lockheed and 650 indirect jobs. So there are a lot of jobs at stake, and we finance a number of satellites. We do a good due diligence. From time to time, a deal will experience difficulties. That is what capitalism is about. Everything does not go perfectly according to plan. Sometimes deals do better than expected, sometimes worse, sometimes exactly. This is a project that is in labor. It is difficult right now. We are working through it. I still think we are going to find a better solution. Yes, the news sounds rather grim, but I did not write that story.

Senator COTTON. Well, I will just say in conclusion, because my time is well past expired, is that what capitalism is primarily about is putting private dollars at risk. You never know if a project is going to succeed beyond anyone's wildest measure or fail unexpectedly. But when profits and losses are private, then you have the best incentives created.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you.

I have a couple of questions, Mr. Chairman. What percent of the \$47 billion—we have been told \$47 billion that you have underwritten exports. What percent of that are airplanes, roughly? In other words, of your portfolio, what—

Mr. HOCHBERG. I am confused. You said \$47 billion? Last year, we did \$27 billion.

Chairman SHELBY. Well, I am talking about overall. We had a figure that U.S. exports for 2014 were \$2.35 trillion.

Mr. HOCHBERG. Oh, yes.

Chairman SHELBY. And that you financed about 2 percent or \$47 billion.

Mr. HOCHBERG. Actually, we did about \$27 billion worth of exports.

Chairman SHELBY. OK.

Mr. HOCHBERG. Some of those exports, remember, tourism coming to America is also an export.

Chairman SHELBY. OK. Well, what percentage of your portfolio dealt with financing airplane sales?

Mr. HOCHBERG. Last year, in 2014, we financed in the range of about 35 percent of the—

Chairman SHELBY. Thirty-five percent of your portfolio.

Mr. HOCHBERG. Thirty-five percent. And, actually, I should add the smallest number of airplanes were financed last year than the previous dozen years. We actually had the smallest footprint we ever had in that time period.

Chairman SHELBY. This question has been asked many ways, I guess, but let us say that we have an airline manufacturer—we know it is Boeing—and they are going to sell some planes to the United Arab Emirates or their airline—you know, a very rich country and so forth. Could an airline here like—we will just use any of our airlines—Southwest, USAir, Delta, you name it, domestic. Could they get the same kind of financing here that you give to their world competitor overseas?

Mr. HOCHBERG. We have the best capital markets in the world—

Chairman SHELBY. I know.

Mr. HOCHBERG.—so anytime a U.S. carrier finances a plane, we actually run the numbers, and we say if they were a foreign carrier, what would we charge, to make sure we are charging more. We verify every time there is a financing of a U.S. carrier. We compare that to what a foreign carrier would pay with the same credit history, the same credit rating.

Chairman SHELBY. Do you give them the same rate?

Mr. HOCHBERG. No, the rates are determined internationally. What I am trying to say is we want to verify that the rates are proper and high enough. We have between doubled and tripled their fees we charge foreign carriers since 2011 to make sure we are not competing unfairly with the U.S. carriers, to make sure that the rates are higher than domestic airlines pay.

Chairman SHELBY. With what you are just saying, what is the advantage of and why would you have an Export-Import Bank if somebody could access a country—we will just use United Arab Emirates, blue chip, with all the oil and money I guess they will ever need. They could borrow on the open market, so they cut a

deal with the Export-Import Bank. Obviously, it is a lower interest rate. It has got to be something. Are you saying it is not?

Mr. HOCHBERG. Well, the interest rate, again, they pay us a fee, and as a result, they can borrow at a lower rate than they might otherwise be able to borrow. But I am trying to say it is still lower than U.S. carriers pay. Yes, it is lower than they could access otherwise, but the difficulty is that we are in head-to-head competition with Airbus.

Chairman SHELBY. We understand that.

Mr. HOCHBERG. And so we have got to level the playing field, when they have a choice, they are going to buy an Airbus plane or a Boeing plane.

Chairman SHELBY. But our airlines here are paying more for their money than, say, their competition in the world if you finance those airplanes?

Mr. HOCHBERG. No. Our airlines still pay less—

Chairman SHELBY. You just said they did.

Mr. HOCHBERG. They pay less. I thought the question was would Emirates—

Chairman SHELBY. Who pays less?

Mr. HOCHBERG. U.S. carriers pay less.

Chairman SHELBY. Pay less in finance?

Mr. HOCHBERG. Yes.

Chairman SHELBY. Than the others do overseas?

Mr. HOCHBERG. Yes. Based on our fees, yes.

Chairman SHELBY. Why would an airline like United Arab Emirates or somebody like that, a very rich country, pay more when they could go to the market and get less?

Mr. HOCHBERG. Well, the U.S. carriers pay less because they can borrow here, and we have the most fluid and the deepest capital markets. Foreign carriers have a much harder time accessing—the capital markets in their respective countries are not frequently—are usually not as deep.

Chairman SHELBY. Let me ask you a final question. If 98 percent of our exports, which was \$2.35 trillion in 2014, did not access any credit from the Export-Import Bank, only 2 percent, does that give you room to think if only 2 percent of our exports are going through the Export-Import Bank, do we really need the Export-Import Bank? I just pose the question.

Mr. HOCHBERG. I think we should be proud of the fact that 98 percent in our country have private sector financing. The fact is we have the best private sector, but it does not do everything. Small businesses have challenges. We talked about nuclear. We talked about satellites. We talked about certain—Sub-Saharan Africa. There are gaps in that field, and we only—you know, we do not do very much, Senator, in Western Europe. We do not need to. But we do it in markets that are hard or products that are hard.

Chairman SHELBY. Third World markets.

Mr. HOCHBERG. Developing economies or where we are facing a lot of competition such as we mentioned with Airbus or Siemens or Mitsubishi or some other giant global firms.

Chairman SHELBY. Any other questions?

[No response.]

Chairman SHELBY. Thank you, Mr. Chairman. Thank you for your patience with us here today with the break, and the Committee is adjourned.

[Whereupon, at 11:56 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF FRED P. HOCHBERG

PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

JUNE 4, 2015

Chairman Shelby, Ranking Member Brown, and distinguished Members of the Committee, thank you for inviting me to testify before you today.

ABOUT EXIM BANK

The Export-Import Bank (EXIM Bank) was created to support American job growth by facilitating the export of American goods and services. Each year, EXIM Bank empowers thousands of U.S. businesses—the vast majority of which are small—to contend for sales in an increasingly competitive global marketplace. With 95 percent of the world's consumers living beyond America's borders, U.S. companies are increasingly looking abroad so that they can grow sales and add jobs here at home. Because of global trends in financing, however, U.S. companies are no longer simply competing for sales against foreign businesses—they're also competing against countries offering generous financing terms to their domestic exporters. American exporters face additional competitive headwinds due to broader trends in global trade; for three decades prior to the financial crisis, global trade grew at twice the rate of the global economy, but today, that rate has been cut in half. In an ideal world, competitive financing terms would not be an additional challenge faced by our businesses; however, countries such as China, Russia, and others increasingly see expanding their respective nations' exports as critical to growing their economies. It is incumbent upon America to continue to lead, and to strive to level the playing field in the global export arena—restoring free market factors to their rightful place at center stage of competition. That is where the EXIM Bank comes in.

EXIM Bank is a small and effective government agency whose approximately 450 employees are passionate about empowering businesses to create more American private sector jobs, while serving as responsible stewards of taxpayer dollars. EXIM fulfills its mission to support U.S. jobs in two ways. First, EXIM fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their local bank, and for exports to the developing world, which accounted for 68 percent of EXIM's authorizations in 2014. Second, the Bank seeks to ensure a level playing field for U.S. exports by making available financing that encourages buyers to make decisions based on free market factors such as price and quality, rather than on foreign competitors' state-sponsored or cut-rate financing.

EXIM Bank does not pick winners and losers; rather, it serves any eligible American business seeking competitive financing to export goods and services. EXIM's customers pay fees and interest for the financial services offered by the Bank, and as a result, EXIM Bank is a self-sustaining agency. Over the past two decades, EXIM Bank has sent nearly \$7 billion to the U.S. Treasury. Consequently, if EXIM Bank were not reauthorized, the agency would no longer be able to serve as a budgetary offset.

EXPORT-IMPORT BANK REAUTHORIZATION ACT OF 2012 (P.L. 112-122)

In May 2012, the Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122) was passed by Congress with overwhelming bipartisan support in both chambers—330 Republicans and Democrats in the House and 78 in the Senate. The vote carried on a long tradition of bipartisan support that has existed for 81 years.

To be clear, every action and study required in the Bank's 2012 bipartisan reauthorization has been completed and implemented, or is being complied with on an ongoing basis (*Attachment 1*). Of the 16 recommendations made by the Government Accountability Office (GAO) since the 2012 reauthorization, EXIM has addressed 15, and is working to address the final recommendation (*Attachment 2*). Further to the work we do with the GAO, the Bank regularly consults with the Office of the Inspector General (OIG). Since early 2012, the Office of Inspector General has issued 26 reports and follow-up evaluations containing a total of 145 recommendations. Of those 145 recommendations, EXIM Bank has fully concurred with 143 and has fully implemented 92 to date. We are diligently working to fully implement the remaining 51. On the remaining two unresolved recommendations we continue to work with the OIG on the best path forward (*Attachment 3*). We have closed four additional recommendations since the April 15th hearing.

I fully respect and would like to thank the Committees, Congress, the Office of the Inspector General, and the GAO, as well as the EXIM Bank employees, all of whom have played an integral role in ensuring effective oversight of the Bank. This

attention and oversight has helped the Bank to become a better institution, and has allowed us to better achieve our shared goals of growing U.S. exports while protecting American taxpayers. Over the past several years, the Bank has become more transparent, heightened its focus on risk, expanded its attention on small business and textiles, and is increasingly mindful of global competition—all of which has made the Bank a more effective, more resilient institution supporting U.S. job growth.

ENHANCING PRIVATE SECTOR COMPETITIVENESS

The top priority at EXIM Bank has and will continue to be to support American jobs by facilitating U.S. exports. In FY 2014, EXIM Bank supported 164,000 U.S. jobs through financing approximately \$27.5 billion worth of exports. In accordance with its Charter, the Bank must first and foremost consider a reasonable assurance of repayment standard for the Bank's approval of financing transactions. Except in certain cases that are clearly and carefully defined in EXIM Bank's Charter, EXIM Bank support is only available to finance exports to buyers that lack sufficient private sector liquidity or capital to finance most transactions.

Transparent & Consistent Lending Standards

EXIM Bank's practices adhere to competitiveness and transparency standards established by the Organisation for Economic Cooperation and Development (OECD) Arrangement on Guidelines for Officially Supported Export Credits. In an effort to promote a level global playing field for exports based on free market competition, the OECD Arrangement put into place responsible market based lending and transparency rules, which for several decades governed the totality (100 percent) of official export credit support worldwide. Today, only 16 years removed from that 100 percent figure, the share of official export support that still falls under these guidelines has now dropped to 35 percent (this includes tied and untied financing), as countries such as China and Russia, which operate outside of the OECD Arrangement, have begun to aggressively back their domestic exporters with unregulated, opaque financing. Even among countries that adhere to the OECD guidelines, competition is increasing. For example, Korea's medium- and long-term official export support was more than double that of the United States in 2014, despite the fact that the U.S. economy is 11 times larger than the Korean economy.

Equipping American Businesses To Compete and Promoting a Free and Open Market

More often than not, American businesses and workers aren't simply competing against their Chinese, Russian, and French counterparts; more and more, they're being asked to compete against 'China, Inc.' Though the United States remains well-stocked with innovative businesses of all sizes—many of which are perfectly capable of winning sales opportunities on their merits throughout the world—American companies aren't always able to bring competitive financing packages with them to close a sale, which is increasingly required today. Even those that can secure financing from private lenders face a serious disadvantage when going up against foreign rivals offering generous state financing support of their national champions. This trend has the potential to threaten America's global economic leadership.

I just returned from a meeting with the Berne Union, a group made up of my counterparts from many of the 79 and counting export credit agencies around the globe. At that meeting, I wanted to know whether they anticipate doing more or less to support their domestic exporters over the next 5 years than they currently do. Japan, Korea, Russia, Germany, France, United Kingdom, Brazil, and others all indicated that they expect to accelerate their official export credit backing for their exporters. Generally, China is hesitant to share such forecasts with the world, but no serious observer could possibly anticipate anything other than rapid, aggressive acceleration of official export financing support from China in the years to come. Only Austria and Norway indicated they did not expect significant growth in the coming years.

Our European rivals in particular are keenly focused on job growth. Following our lead, they are putting increased emphasis on supporting their small business exporters. As a result, there's going to be more competition than ever for U.S. small businesses looking to win sales in global markets. And that's to say nothing of larger foreign exporters who will have access to more financial backing than ever before as they compete for business against some of America's largest manufacturing employers. It is also important to remember that those large manufacturers support extensive small business supply chains in cities and towns across America.

Additionally, as my foreign counterparts acknowledged their export credit agencies have become increasingly critical resources in the face of financial crises—both global and regional. When private financiers withdraw from regions or sectors that are experiencing downturns, export credit agencies are equipped to step in so that

their domestic exporters don't experience a drop in sales—thereby maintaining domestic jobs. Export credit agencies are like fire trucks in that sense—not always necessary, but, when disaster strikes, absolutely essential. Like fire trucks, export credit agencies have a security function, safeguarding U.S. exporters' sales from the fires of global and regional financial meltdowns. You don't sell off the fire truck just because there doesn't happen to be a fire at this time. No one can predict when or where the next crisis will hit.

Other countries are aggressively supporting their commercial sectors as a means to enhance their sphere of influence. For example, in February, 12 former national security officials sent a letter to Congress stating:

By way of example, the government of China has announced a new initiative to devote an additional \$10 billion in export credit to Africa—bringing China's total to \$30 billion, roughly the equivalent of the EXIM Bank's global volume for the year. This will enable Chinese firms to expand their reach in the continent—particularly in the infrastructure sector, where projects can have a lifespan of 20 to 30 years. In an environment such as this, we should be exploring how to strengthen the EXIM Bank through sound reform and expand its efforts to counter the aggressive moves of our economic competitors (*Attachment 4*).

GOVERNMENT ACCOUNTABILITY

EXIM Bank is a demand-driven agency; EXIM does not pick winners and losers. Therefore, EXIM Bank does not set pre-determined exposure limits for industries, companies, and countries. Within those limitations, the Bank's rigorous underwriting and due diligence processes ensure that the standard of reasonable assurance of repayment embedded in our charter is achieved for all approved transactions. The Bank has a comprehensive risk management framework as noted by a recent GAO Audit (GAO Report 13–303). EXIM Bank continually improves the accuracy and reliability of its monitoring and loss reserve systems based on recommendations from internal and external auditors, OMB, OIG, GAO, as well as private sector best practices. The Bank's Country Limitation Schedule, which is derived from the Interagency Country Risk Assessment System (ICRAS, chaired by OMB) country rating process, provides policy limitations on the Bank's business based on country credit considerations. The Bank's low default rate is evidence that this system of portfolio management is effective.

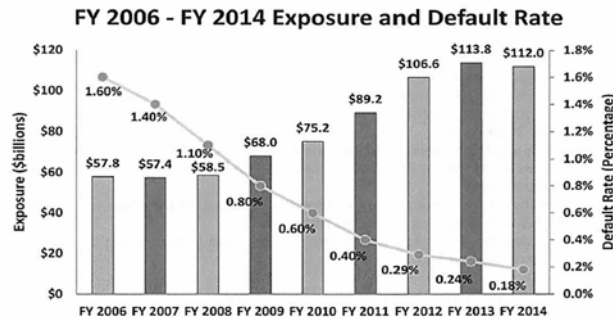
Safeguarding American Taxpayers from Excessive Exposure

Essential to protecting taxpayer dollars is a solid risk management framework which starts with effective underwriting for potential transactions. After a new transaction is authorized, the Bank focuses on proactive monitoring of the credit, through both rigorous due diligence and documentation. This proactive management framework prevents potential defaults and allows the Bank to recover the rare actual defaults, as noted in a recent GAO audit (GAO–13–446).

The result of our strong focus on comprehensive risk management: our low default rate of 0.167 percent as of March 31, 2015.¹ As called for in the 2012 reauthorization, we now report our default rate to Congress every quarter, using a methodology that is completely transparent. As illustrated in the chart below, EXIM's default rate remained low during the global financial crisis—the most realistic 'stress test' imaginable—and has declined since that time. In addition, in FY 2014, almost 80 percent of the Bank's exposure was backed by collateral or a sovereign guarantee.

EXIM Bank's risk management framework has ensured a low number of defaults, coupled with high recovery rates on those rare credits that have entered into default. Since the Federal Credit Reform Act went into effect in 1992, the Bank has succeeded in recovering approximately 50 cents for every dollar defaulted in the portfolio. Claims are paid from fees collected from the Bank's customers—not from taxpayers.

¹ This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.



In addition to closely monitoring its exposure, EXIM Bank performs regular stress testing of its portfolio to identify how the current portfolio may perform in the future under stressed scenarios. Those stress tests results are included in our quarterly default rate reports that we send to Congress.

Stress testing provides a forward-looking assessment of the potential impact of various adverse scenarios that could impact a banking institution's financial condition and capital adequacy. EXIM Bank's stress testing builds capacity to understand the Bank's risks and the potential impact of stressful events and circumstances on the Bank's financial condition. EXIM Bank's Inspector General recommended—and EXIM accepted—that “Ex-Im Bank should develop a systematic approach to stress testing and should conduct stress testing at least annually as part of its re-estimate process.” The Bank accepted the OIG's recommendations and took proactive measures to go one step further by including an additional stress scenario, which assumes zero recoveries for the Bank—a highly unlikely, but informative stress test. The Bank will continue to monitor and report the results of these future stress test scenarios to the U.S. Congress.

EXIM Bank has a culture of continuous improvement, and has implemented numerous risk management improvements to further ensure that we remain effective stewards of the taxpayers we serve. Equally important is the Bank's commitment to improving how it measures, controls, and mitigates risks. The Bank has made numerous advancements in recent years, including:

1. Hiring a Chief Risk Officer;
2. Creating the Enterprise Risk Committee to examine and monitor all bank-wide risk;
3. Creating a Special Assets unit to enhance recoveries;
4. Expanding proactive monitoring efforts;
5. Increasing staffing in our asset monitoring divisions by 33 percent;
6. Going beyond Federal requirements to implement mandatory ethics training for ALL Bank employees;
7. Updating, streamlining, and simplifying domestic content requirements;
8. Streamlining our application process to provide better customer service and reduce decision time;
9. Enhancing the customer contact center, now operating from 8am to 8pm Monday through Friday with a team of trained operators; and
10. Implementing mandatory training on preventing and detecting fraud for all loan officers/underwriters.

Small Business, Customer Experience, and Data Quality

EXIM Bank is constantly seeking out new ways to serve its customers more efficiently without compromising our underwriting standards. Expanding on the 2012 reauthorization efforts to improve our IT infrastructure, we have taken additional steps to meet industry standards and focus on data quality. With a new Chief Information Officer, the Bank is proactively working to improve these practices. Alongside this effort to improve technology, EXIM has streamlined its application processing, which has seen the number of days needed to reach an authorization decision cut in half since 2009.

Additionally, as part of our ongoing efforts to enhance the customer experience for current and prospective exporters, EXIM Bank initiated a new and improved

customer contact center that includes an improved 1–800 number experience, along with a new email response system. The contact center also has online chat capabilities that allows small businesses to get questions answered quickly. The new contact center is the latest EXIM Bank initiative aimed at bringing our customers “government at the speed of business.” EXIM Bank is one of only four government agencies to have established a dedicated customer experience function. In addition, to improve the quality, reliability, and accuracy of the data we collect, we updated our application processes to require that certain data be included prior to accepting an application, such as number of employees, annual sales volumes, and NAICS codes. By requiring this information, we are working to improve our data quality as well as enhance the support we provide to our customers, your constituents.

HISTORY OF ONGOING ACTIONS TO PREVENT CORRUPTION & FRAUD

As a U.S. Government agency, EXIM Bank takes rigorous proactive measures to protect taxpayer dollars. Corruption and fraud mitigation efforts begin with EXIM Bank participants meeting our “Know Your Customer” requirements and “Transaction Due Diligence” standards. Risk-based due diligence is performed by staff to underwrite transactions. Subsequent due diligence is performed post-authorization using a risk-based sampling of authorized transactions to identify possible corruption and fraud. Any evidence of corruption and/or fraud uncovered as a result of these activities is referred to the Office of Inspector General (OIG), which began operating in 2007 and has a team of 23 employees. The successful record of the OIG in prosecuting parties involved in attempting to defraud the Bank is an important deterrent as well.

EXIM Bank has zero tolerance for fraud, waste, or abuse and takes thorough and immediate action when any hint of misconduct or fraud is detected by the safeguards we have in place, including working closely with OIG. EXIM Bank conducts mandatory ethics training for all employees on an annual basis, including specific segments on rules relating to gifts from participants in EXIM Bank programs. Additionally, there is mandatory fraud-awareness training for all loan officers/underwriters on an annual basis. This training is designed to maintain a vigilant awareness of the risk of fraud in EXIM Bank transactions.

EXIM’s culture of high ethical standards is evident in the Bank’s collaborative work with the OIG and support of OIG investigations and Department of Justice prosecutions of fraud matters. Of course, any organization can experience a bad apple. However, in the last six years, there has been only one indictment involving an EXIM Bank employee. In fact, the situation was uncovered thanks to a tip received by the OIG from a fellow EXIM employee. That employee recently pled guilty and is facing sentencing. Fortunately, this was an isolated incident. Unfortunately, like many other government agencies, there are also those outside the agency who try to take advantage. As Michael McCarthy, Acting Inspector General, stated in his testimony before the joint subcommittees of the House Financial Services Committee and House Oversight and Government Reform Committee on April 15, 2015: “So what I can assure you is at this time in those other cases that we are investigating *[sic]* do not have evidence that we have developed of EXIM Bank employee internal complicity or participation . . . In those other cases, [interruption] at this point, [interruption] within the 31 cases, I would not at this point expect indictments of EXIM employees.”

EXIM Bank is committed to operating under the highest ethical standards. The agency’s ethics program is not only fully compliant with all laws, but goes beyond government regulations, and policies that govern this aspect of our work. We conduct comprehensive ethics training for all employees and foster an environment where employees are encouraged to ask questions and report suspected unethical behavior. Among other duties, our ethics staff:

- Reviews 227 Confidential Financial Disclosure forms and 55 Public Financial Disclosure forms and conducts conflicts reviews;
- Reviews outside activity requests from Bank employees;
- Provides advice to employees on ethics questions;
- Provides advice on post-employment restrictions for current and former employees;
- Provides travel guideline advice; and
- Monitors the Bank’s “Ethics Advice” email account, which was created to provide employees quick and discreet ethics advice on basic ethics questions.

Furthermore, all new employees receive introductory ethics training upon arrival and mandatory training annually thereafter. The Bank brings in the Office of Special Counsel (OSC) to conduct Hatch Act training as well. Our ethics staff ensures

100 percent participation of all employees (above and beyond the minimum requirements of GS-11) by tracking who attends the training and following up with employee supervisors to ensure attendance. Employees who are unable to attend live sessions take an electronic course through the AGLearn online learning program.

Also, the Bank introduced the “Ethics Guide for Federal Government Employees” a pocket-sized guide to provide a quick reference for employees to refer to ethics rules. We incorporated the use of the guides into the 2013 training module, and we distribute the guides to all new employees. The guides have been well-received by the staff and resulted in increased employee engagement in ethics rules.

CONCLUSION

We appreciate the widespread bipartisan support of EXIM, and are eager to continue to support American jobs, as the Bank has done effectively and efficiently for more than eight decades. Providing long-term certainty to U.S. businesses seeking to compete in overseas markets is imperative as they make long-term plans to grow their global sales, to hire more workers, and to invest in innovation. Deciding to export is not a last-minute decision, but one that requires extensive planning. For companies like Bassett Ice Cream in Philadelphia, L&H Industrial in Gillette, Wyoming, or Murray Equipment in Fort Wayne, Indiana, EXIM Bank plays a critical role—and one that by definition would not be filled by the private sector.

Selling goods across borders is not the same as selling goods domestically. Access to credit is frequently what is needed to make global projects happen. When U.S. companies compete for international, large-scale infrastructure projects, the financial options are more limited. The larger the project, the greater the impact on a company's day-to-day cash flow. Zeeco, a combustion technology company in Broken Arrow, Oklahoma, knows this fact very well. Zeeco started as a small business, but due to export sales has been able to triple its size and grow into a medium-sized business. This was primarily due to the superior products they provide, but also a result of the guarantee they were able to obtain from EXIM Bank. That guarantee allowed them to effectively compete with foreign rivals who were offering financing packages as a part of their sales pitch. When I visited Zeeco in March, they told me that commercial banks get nervous about making loans on international transactions, and that unless you are investment-grade, the commercial sector would not extend credit without a guarantee. Zeeco is a great example of where EXIM Bank has been able to simultaneously fill the gap and level the playing field.

Companies face a variety of challenges in competing for sales. The U.S. Government should be there to break down barriers wherever we can, not to put up more road blocks. We know that export-backed jobs pay up to 18 percent more on average than other jobs and we also know that exports have accounted for nearly one-third of our total economic growth over the past 5 years. Right now, U.S. exports are at record levels, representing over 13 percent of our GDP. But I think we can do better, which is why the President is trying to open more markets for American goods with bipartisan free trade agreements, and why EXIM continues to work with the private sector to fill in commercial financing gaps in order to encourage more U.S. exports.

Rising competition and an ever-globalizing world have made EXIM Bank more vital than ever for reducing the risks faced by American exporters so that they can unleash opportunity in the form of new jobs. I look forward to continuing to work with you on empowering your constituents to export, grow, and hire more American workers.

EXPORT-IMPORT BANK of the United States



Export-Import Bank Reauthorization Act of 2012: Every Reform Completed

Less than three years ago, Congress voted to reauthorize the Export-Import Bank of the United States, including a number of reforms (P.L. 112-122). Ex-Im Bank has now completed and implemented **every single reform**. But reforming and improving our operations doesn't begin or end with a bill's passage. At Ex-Im Bank, we pride ourselves on "government at the speed of business," and we've taken a number of steps in recent years to improve the customer experience for small business exporters, streamline operations, manage risk, and improve transparency.

Section by Section: Export-Import Bank Reauthorization Act of 2012 Status

Section 1: Short Title; Table of Contents	No Action Required
Section 2: Extension of Authority	No Action Required
Section 3: Limitations on Outstanding Loans, Guarantees, and Insurance	Completed
Ex-Im Bank met all conditions for an increase in its exposure cap to \$130 billion in 2013 and an increase to \$140 billion in 2014 (see sections 4-6, 11).	
Section 4: Export-Import Bank Exposure Limit Business Plan	Completed
Ex-Im Bank sent its final business plan to Congress and the Comptroller General on September 28, 2012.	
Section 5: Study by the Comptroller General on the Role of the Bank in the World Economy and the Bank's Risk Management	Completed
GAO submitted its report to Congress in March 2013. The Bank submitted its report to Congress on the implementation of GAO's recommendations in June 2013.	
Section 6: Monitoring of Default Rates on Bank Financing; Reports on Default Rates; Safety and Soundness Review	Completed Quarterly
Ex-Im Bank submits a default rate report to Congress each quarter.	
Section 7: Improvement and Clarification of Due Diligence Standards for Lender Partners	Completed
Ex-Im Bank updated its due diligence standards and "know your customer" requirements on May 30, 2014.	
Section 8: Non-Subordination Requirement	Completed
Ex-Im Bank added this requirement to its Policy Handbook and completed training of Ex-Im Bank staff.	
Section 9: Notice and Comment for Bank Transactions Exceeding \$100,000,000	Ongoing
Notices are regularly published in the Federal Register as required.	
Section 10: Categorization of Purpose of Loans and Long-Term Guarantees in Annual Report	Completed
Ex-Im Bank first included a categorization of long-term loans and guarantees in its FY 2012 Annual Report. The categorization will continue to be included in all future Ex-Im Bank Annual Reports.	
Section 11: Negotiations to End Export Credit Financing	Completed Annually
Completion of this reform was assigned by Congress to the U.S. Department of the Treasury. Treasury provides a report on export credit financing to Congress annually.	
	by U.S. Department of Treasury
Section 12: Publication of Guidelines for Economic Impact Analyses and Documentation of Such Analyses	Completed
Updated economic impact procedures and methodology were approved by Board on November 19, 2012. They were published online and reported to Congress, GAO, and the Inspector General on November 26, 2012.	

EXPORT-IMPORT BANK of the United States

Continued:

Section by Section: Export-Import Bank Reauthorization Act of 2012 Status

Section 13: Report on Implementation of Recommendations of the Government Accountability Office . . . Completed
 Ex-Im Bank submitted this report to Congress on November 26, 2012.

Section 14: Examination of Bank Support for Small Business. Completed
 Ex-Im Bank's Small Business Report was submitted to Congress on November 26, 2012.

Section 15: Review and Report on Domestic Content Policy Completed
 Ex-Im Bank's report to Congress on domestic content policy was submitted on May 30, 2013.

Section 16: Improvement of Method for Calculating the Effects of Bank Financing on Job Creation and Maintenance in the United States Completed
 GAO submitted its report on May 23, 2013.

Section 17: Periodic Audits of Bank Transactions. Initial Audit Completed
 GAO completed an initial audit of underwriting guidelines, lending policies, due diligence procedures, content guidelines, and fraud controls. It was sent to Congress on September 9, 2014. Future audits will take place periodically.

Section 18: Prohibitions on Financing for Certain Persons Involved in Sanctionable Activities with Respect to Iran Completed
 Procedures and certificates have been posted on Ex-Im Bank's website, and training of Ex-Im Bank staff has been completed. Certificates are being collected as required.

Section 19: Use of Portion of Bank Surplus to Update Information Technology Systems Ongoing
 Ex-Im Bank is modernizing its IT systems.

Section 20: Modifications Relating to the Advisory Committee Completed
 Beginning in 2013, each Ex-Im Bank Advisory Committee has included a textile industry representative. That member helps ensure that the Advisory Committee is working to advise Ex-Im Bank on how to increase support for the U.S. textile industry.

Section 21: Financing for Goods Manufactured in the United States Used in Global Textile and Apparel Supply Chains Completed
 Ex-Im Bank's Report on Global Textile and Apparel Supply Chains was sent to Congress on November 30, 2012.

Section 22: Technical Correction No Action Required

Section 23: Sub-Saharan Africa Advisory Committee No Action Required

Section 24: Dual-Use Exports No Action Required

Section 25: Effective Date No Action Required

Ex-Im Bank has also enacted a number of additional voluntary improvements to better serve exporters and protect taxpayers:

- Realigned internally by industry sector to respond to market trends and better serve U.S. exporters.
- Improved customer service for U.S. exporters through the new Customer Contact Center at 1-800-565-EXIM.
- Established the office of Chief Risk Officer and created the Enterprise Risk Committee to maintain comprehensive and systematic risk management.
- Mandated ethics training for every single Ex-Im Bank employee, resulting in a 100% participation rate.



Export-Import Bank Reauthorization Act of 2012: Working with GAO to Keep Improving

Since the last Ex-Im Bank reauthorization, the GAO has issued five reports containing a total of 16 recommendations. Of those 16 recommendations, Ex-Im Bank has agreed with all 16 and has addressed 15 of them – subsequently 13 have been closed by GAO, and GAO is currently reviewing materials provided by Ex-Im for two. Ex-Im Bank is also working diligently to address the one remaining recommendation from the most recent GAO report.

March 28, 2013 - Recent Growth Underscores Need for Continued Improvement in Risk Management (GAO-13-303)

- Recommendation 1 – Improve reliability of loss estimation model – **CLOSED**
- Recommendation 2 – Retain point in time data on credit performance – **CLOSED**
- Recommendation 3 – Report stress test scenarios to Congress – **CLOSED**
- Recommendation 4 – Develop and monitor workload benchmarks – **CLOSED**

May 23, 2013 - More Detailed Information about its Jobs Calculation Methodology Could Improve Transparency (GAO-13-446)

- Recommendation 1 – Increase transparency of the methodology to calculate number of jobs Ex-Im supports – **CLOSED**

May 30, 2013 - Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources (GAO-13-620)

- Recommendation 1 – Adjust Bank's forecast models – **CLOSED**
- Recommendation 2 – Report financial performance at sub-portfolio level – **CLOSED**
- Recommendation 3 – Assess sensitivity of the exposure forecast model – **CLOSED**
- Recommendation 4 – Provide additional information on the resources associated with meeting the mandated target – **CLOSED**

August 28, 2014 - Monitoring of Dual-Use Exports Should Be Improved (GAO-14-719)

- Recommendation 1 – Strengthen Ex-Im guidance for monitoring end use – **RESPONDED**

(over)

EXPORT-IMPORT BANK of the United States

Continued:

September 9, 2014 - Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes (GAO-14-574)

- **Recommendation 1** – Develop and implement procedures prior to loan guarantee approval – **RESPONDED**
- **Recommendation 2** – Establish mechanisms to oversee compliance with Ex-Im's existing procedures – **CLOSED**
- **Recommendation 3** – Develop and implement detailed instructions prior to loan guarantee approval – **CLOSED**
- **Recommendation 4** – Update CRTI review process – **WORKING TO ADDRESS**
- **Recommendation 5** – Document risk-based approach for scheduling delegated authority lender examinations – **CLOSED**
- **Recommendation 6** – Document overall fraud process – **CLOSED**



Export-Import Bank Reauthorization Act of 2012: Working with OIG to Keep Improving

Since early 2012, the Office of Inspector General has issued 26 reports and follow-up evaluations containing a total of 145 recommendations. **Of those 145 recommendations, Ex-Im Bank has fully concurred with 143** and has implemented 92 to date, while we are diligently working to implement the remaining 51 (26 of which have been issued in the past 90 days). On the remaining two unresolved recommendations we continue to work with the OIG on the best path forward to address concerns raised in the reports.

September 17, 2010 - Economic Impact Procedures (OIG-EV-10-03)

- **Recommendation 1** – Present the available quantitative and qualitative information in a concise balancing format – **FULLY IMPLEMENTED**
- **Recommendation 2** – Consider guidance provided by OMB in developing specifications for its analysis and reports to the Board – **FULLY IMPLEMENTED**
- **Recommendation 3** – Reliance on trade flow analysis or any other quantitative methods should be made subject to Board approval – **FULLY IMPLEMENTED**
- **Recommendation 4** – Trade flow analysis should not be the sole or primary criterion for deciding economic impact cases – **FULLY IMPLEMENTED**
- **Recommendation 5** – Develop additional criteria for analysis of economic impact – **FULLY IMPLEMENTED**
- **Recommendation 6** – Provide for a periodic backward-looking empirical review – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Reevaluate the “sensitive commercial sectors list” – **FULLY IMPLEMENTED**
- **Recommendation 8** – Include more information about the PPG staff’s methodology and publish it on the Bank’s website – **FULLY IMPLEMENTED**
- **Recommendation 9** – Revise the Bank’s internal procedures in preparing economic impact reports – **FULLY IMPLEMENTED**
- **Recommendation 10** – Make economic impact reports publicly available – **FULLY IMPLEMENTED**
- **Recommendation 11** – Develop and make public a methodology to identify at an early stage low risk transactions – **FULLY IMPLEMENTED**
- **Recommendation 12** – Request exporters of capital equipment to provide relevant data to support an accelerated review – **FULLY IMPLEMENTED**

(over)

EXPORT-IMPORT BANK of the United States

- **Recommendation 13** – Inviting proponents of transactions subject to formal economic impact review to submit white paper analyses – **FULLY IMPLEMENTED**
- **Recommendation 14** – Provide earlier notice to Congress and the Reviewing Agencies of the initiation of economic impact review – **FULLY IMPLEMENTED**
- **Recommendation 15** – Implementing a policy with the Reviewing Agencies that would set a specified limited time period – **FULLY IMPLEMENTED**
- **Recommendation 16** – Hire a trained economist to assist in implementing the improvements suggested in this Report – **FULLY IMPLEMENTED**

June 7, 2011 - Review of the Ex-Im Bank Nigeria Banking Facility (OIG-SR-11-01)

- **Recommendation 1** – Develop policies and procedures clearly defining when a Special Delegation of Authority is beneficial – **FULLY IMPLEMENTED**
- **Recommendation 2** – Develop policies and procedures describing how credit facilities would be established – **FULLY IMPLEMENTED**
- **Recommendation 3** – Establish an anti-corruption hotline – **FULLY IMPLEMENTED**

January 24, 2012 – Information Technology Support for Ex-Im Bank's Mission (OIG-AR-12-04)

- **Recommendation 1** – Have business owners individually and in aggregate reevaluate their business requirements – **FULLY IMPLEMENTED**
- **Recommendation 2** – Develop a formal working file document management policy – **FULLY IMPLEMENTED**
- **Recommendation 3** – Implement a unique Identifier to ensure that all participants can be readily identified with their historical transactions – **FULLY IMPLEMENTED**
- **Recommendation 4** – Revise required minimum participant data necessary to process an application – **FULLY IMPLEMENTED**
- **Recommendation 5** – Develop a formal data management policy and procedures to ensure complete and accurate participant data – **FULLY IMPLEMENTED**
- **Recommendation 6** – Require that the formal data management policy and procedures be communicated, reviewed and readily accessible – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Develop a process for creating a clear and comprehensive IT Strategic Plan – **FULLY IMPLEMENTED**
- **Recommendation 8** – Classify requested and authorized IT funds according to OMB's CIRCULAR A-11 – **FULLY IMPLEMENTED**
- **Recommendation 9** – Enhance or replace the AAA system to provide information on actual versus planned IT – **FULLY IMPLEMENTED**

EXPORT-IMPORT BANK of the United States

▫ **Recommendation 10** – Formally direct the CIO on the implementation of requirements in OMB's M-11-29, Chief Information Officer Authorities – **FULLY IMPLEMENTED**

▫ **Recommendation 11** – Ensure Ex-Im Bank's SDLC process is consistently followed when implementing major systems – **FULLY IMPLEMENTED**

March 27, 2012 – Performance Metrics & Operational Efficiency (OIG-INS-12-01)

▫ **Recommendation 1** – Develop a systematic approach to defining and measuring customer satisfaction via annual survey – **FULLY IMPLEMENTED**

▫ **Recommendation 2** – Develop a customer service plan in accordance with Executive Order 1357 on Improving customer service – **FULLY IMPLEMENTED**

▫ **Recommendation 3** – Participate in an inter-ECA dialogue on operational performance and customer service. Promote ECA best practices – **FULLY IMPLEMENTED**

▫ **Recommendation 4** – Implement performance standards throughout the agency in accordance with GPRA Modernization Act of 2010 – **FULLY IMPLEMENTED**

▫ **Recommendation 5** – Redefine performance measures and implement a balanced score card, incorporating quantitative and qualitative metrics – **CONCUR, WORKING TO IMPLEMENT**

▫ **Recommendation 6** – Solicit customer input and revisit its metrics and customer service response time levels to reflect customer expectations – **FULLY IMPLEMENTED**

▫ **Recommendation 7** – Develop uniform response time cycle – **FULLY IMPLEMENTED**

▫ **Recommendation 8** – Implement improved monitoring procedures and appropriate response time targets for long-term guarantees and loans – **FULLY IMPLEMENTED**

September 26, 2012 – Audit of Export-Import Bank's Purchase Card Program (OIG-AR-12-06)

▫ **Recommendation 1** – Verify that all purchase card program participants complete required purchase card training – **FULLY IMPLEMENTED**

▫ **Recommendation 2** – Establish a process and recordkeeping system for tracking and verifying completion of required training – **FULLY IMPLEMENTED**

▫ **Recommendation 3** – Provide a current Delegation of Procurement Authority to purchase cardholders – **FULLY IMPLEMENTED**

▫ **Recommendation 4** – Develop Bank specific purchase card training to supplement refresher training offered by GSA – **FULLY IMPLEMENTED**

▫ **Recommendation 5** – Revise Ex-Im Bank's Purchase Card Policy to more clearly describe restrictions on use of convenience checks – **FULLY IMPLEMENTED**

▫ **Recommendation 6** – Perform random audits of cardholder accounts and conduct annual review of the purchase card program – **FULLY IMPLEMENTED**

EXPORT-IMPORT BANK of the United States

September 27, 2012 – Portfolio Risk and Loss Reserve Allocation Policies (OIG-INS-12-02)

- **Recommendation 1** – Develop a systematic approach to identifying, measuring, pricing, and reserving for portfolio risk – **FULLY IMPLEMENTED**
- **Recommendation 2** – OCFO should design and implement a formal governance framework for the use of financial models – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Develop a systematic approach to stress testing and conduct stress testing annually as part of its re-estimate process – **FULLY IMPLEMENTED**
- **Recommendation 4** – Implement soft portfolio concentration sub-limits based on industry, geography, or asset class – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5** – Create the position of Chief Risk Officer to oversee the design and implementation of an agency-wide risk management – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Amend bylaws to broaden the responsibility of the Audit Committee to oversight of agency-wide risk management – **CONTINUE TO WORK WITH OIG**
- **Recommendation 7** – Review current risk metrics and reporting procedures to enhance transparency and to better inform key stakeholders – **FULLY IMPLEMENTED**

September 28, 2012 – Export-Import Bank's Short Term Insurance Program (OIG-AR-12-05)

- **Recommendation 1** – Document policies and procedures through management directives, administrative policies, and operating manuals – **FULLY IMPLEMENTED**
- **Recommendation 2** – Implement enhanced due diligence procedures for insurance applications that may have elevated business risks – **FULLY IMPLEMENTED**
- **Recommendation 3** – Ensure that individuals with delegated authority verify that CRTI due diligence is performed before approving a policy – **FULLY IMPLEMENTED**
- **Recommendation 4** – Implement a monitoring process for periodically reviewing a sample of short-term insurance program authorizations – **FULLY IMPLEMENTED**
- **Recommendation 5** – Implement a due-diligence procedure checklist that is completed by individuals with delegated authority – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Develop and implement a monitoring process for periodically reviewing a sample of authorizations – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Perform separate underwriting for all new multi-buyer policies, all new SBCLs over \$5,000, and all enhanced assignments – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 8** – Perform separate underwriting for all policy renewals with a limit over \$1 million – **CONCUR, WORKING TO IMPLEMENT**

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- **Recommendation 9** – Implement periodic reviews of authorizations underwritten and approved by the same individual – **FULLY IMPLEMENTED**
- **Recommendation 10** – Implement controls to ensure that EOL's exporter score calculations used during underwriting are accurate – **FULLY IMPLEMENTED**

January 23, 2013 – FY2012 Financial Statement Audit – Management Letter (OIG-AR-13-02)

- **Recommendation 1** – Enhance the review process from TPMD prior to submission of the risk rating to the VP of TPMD for approval – **FULLY IMPLEMENTED**
- **Recommendation 2** – Review changes made in the LGA after August 31 by Office of the Controller to ensure BCL risk ratings are appropriate – **FULLY IMPLEMENTED**
- **Recommendation 3** – Review and compare information for transactions in LGA against the final approved executed agreements / amendments – **FULLY IMPLEMENTED**
- **Recommendation 4** – Add a second level of review on the subsidy calculation prior to releasing approved or amended transactions into the LGA – **FULLY IMPLEMENTED**
- **Recommendation 5** – Perform a thorough review of “accrual” status of loans on a regular basis – **FULLY IMPLEMENTED**
- **Recommendation 6** – Enhance controls around the journal entry review process to detect any misstatements that may potentially occur – **FULLY IMPLEMENTED**
- **Recommendation 7** – Perform a more detailed review of the formulas used in the allowance for loan loss methodology – **FULLY IMPLEMENTED**
- **Recommendation 8** – Ensure all actions taken on the Daily Security Monitoring report are documented and retained – **FULLY IMPLEMENTED**

March 14, 2013 – Improper Payments Reporting (OIG-AR-13-03)

- **Recommendation 1** – Revise procedures to ensure improper payments assessment correctly calculates improper payment rates – **FULLY IMPLEMENTED**
- **Recommendation 2** – Address the potential elevated risk of improper loan disbursements or management's acceptance of the risk – **FULLY IMPLEMENTED**
- **Recommendation 3** – Modify the method used to score improper payments risk assessment questionnaires – **FULLY IMPLEMENTED**

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- **Recommendation 4** – Include a reasonable estimate of fraudulent insurance claim payments or obtain OMB's written approval to exclude – **FULLY IMPLEMENTED**
- **Recommendation 5** – Consider the cost effectiveness of conducting payment recapture audits and additional periodic testing to prevent – **FULLY IMPLEMENTED**

March 22, 2013 – FY2012 Information Security Program and Practices Audit (OIG-AR-13-04)

- **Recommendation 1** – Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**
- **Recommendation 2** – Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**
- **Recommendation 3** – Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

September 26, 2013 – Export-Import Bank's Management of Direct Loans and Related Challenges (OIG-AR-13-05)

- **Recommendation 1** – Develop a systematic quality control review program to correct Bank staff noncompliance with credit program policy – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Identify operational risks and impacts on Ex-Im Bank's ability to achieve credit program goals and objectives – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support – **FULLY IMPLEMENTED**
- **Recommendation 4** – Adopt applicable Federal credit program policies and guidance – **FULLY IMPLEMENTED**

September 30, 2013 – Minera y Metalurica del Boleo S.A. (OIG-INS-13-01)

- **Recommendation 1** – Conduct a comprehensive review of its credit analysis and approval procedures by benchmarking credit review – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Consider the implementation of a risk-based approach to monitoring – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Establish a streamlined, automated electronic invoice submittal system with a client web portal – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 4** – Enhance the KYC/CRTI process, perform a full check (including local media sources) – **CONCUR, WORKING TO IMPLEMENT**

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- **Recommendation 5** – Evaluate current fraud prevention practices for local costs by benchmarking best practices – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Increase staff in both the pre- and post-operative transaction monitoring teams and related internal resources – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Conduct a post-mortem review of the structural issues encountered in the Boleo transaction – **FULLY IMPLEMENTED**

December 11, 2013 – Report on Export-Import Bank's Content Policy (OIG-AR-14-01)

- **Recommendation 1** – Implement procedures to verify exporter self-certifications of content throughout each fiscal year – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Obtain resolution on the 2001 requirement to provide an Annual Report on Content Trends – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support – **CONCUR, WORKING TO IMPLEMENT**

December 13, 2013 – Audit of Export Import Bank of the United States Fiscal Year 2013 Financial Statements (OIG-AR-14-02)

- No recommendations resulted from this report.

March 21, 2014 – FY 2013 Financial Statement Audit Management Letter (OIG-AR-14-04)

- **Recommendation 1** – Enhance the review process of the working capital guarantee information entered by staff members – **FULLY IMPLEMENTED**
- **Recommendation 2** – Institute policies for the application of proper invoice date according to the Prompt Payment Act – **FULLY IMPLEMENTED**
- **Recommendation 3** – Review of the subsidy re-estimate spreadsheet be performed to detect any material misstatements in a timely manner – **FULLY IMPLEMENTED**
- **Recommendation 4** – Perform a review of the inputs used in the macro prior to performing the calculation of the subsidy re-estimate – **FULLY IMPLEMENTED**
- **Recommendation 5** – Implement controls to ensure that the proper journal entry is recorded to write off the rescheduled loan – **FULLY IMPLEMENTED**
- **Recommendation 6** – Perform a review of transactions in the portfolio to ensure that they are assigned to appropriate monitoring divisions – **FULLY IMPLEMENTED**
- **Recommendation 7** – Focus on the execution of access changes in relation to the annual access review – **FULLY IMPLEMENTED**

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March 26, 2014 – FY 2013 Information Security Program and Practices Audit (OIG-AR-14-03)

- **Recommendation 1** – Implement the use of PIV cards to achieve multifactor authentication – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Document policies and procedures for information security oversight of externally hosted services and systems – **FULLY IMPLEMENTED**
- **Recommendation 3** – Ensure that individuals with significant security responsibilities complete annual security training – **FULLY IMPLEMENTED**
- **Recommendation 4** – Clearly define, document, and review a list of events required to be captured by the system – **FULLY IMPLEMENTED**
- **Recommendation 5** – Ensure that inactive accounts are disabled after a 90 days and terminated individuals are removed immediately – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Follow the established security assessment and authorization policy and procedures document – **FULLY IMPLEMENTED**

April 15, 2014 – Improper Payments Reporting (OIG-AR-14-06)

- **Recommendation 1** – State in the Annual Financial Report (AFR) the decision whether or not to perform payment recapture audits – **FULLY IMPLEMENTED**
- **Recommendation 2** – Ensure that OGC reports all required payments received from non-Federal sources – **FULLY IMPLEMENTED**

April 23, 2014 – Ex-Im Bank's Sponsored Travel (OIG-AR-14-05)

- **Recommendation 1** – Establish reporting procedures over sponsored travel – **FULLY IMPLEMENTED**
- **Recommendation 2** – Ensure that OGC reports all required payments received from non-Federal sources – **FULLY IMPLEMENTED**
- **Recommendation 3** – Establish effective control activities over submission of the sponsored travel vouchers – **FULLY IMPLEMENTED**

June 18, 2014 – PNG LNG Project (OIG-INS-14-01)

- **Recommendation 1** – Strengthen the effectiveness and transparency of the CRTI/KYC due diligence – **FULLY IMPLEMENTED**
- **Recommendation 2** – Strengthen compliance with Ex-Im Bank Policies and to enhance transparency in the financing of local goods and services – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Establish a streamlined, automated electronic invoice submittal system with a client web portal – **CONCUR, WORKING TO IMPLEMENT**

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September 30, 2014 – Punj Lloyd Solar Power, Ltd. (OIG-INS-14-02)

- **Recommendation 1** – Review and evaluate its current CRTI policies and procedures – **FULLY IMPLEMENTED**
- **Recommendation 2** – Evaluate its current Post-Operative Monitoring Policy – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Consider obtaining a credit reference or sharing information with the other federal credit programs – **CONCUR, WORKING TO IMPLEMENT**

January 14, 2015 – FY 2014 Financial Statement Audit Management Letter (OIG-AR-15-02)

- **Recommendation 1** – Enhance the effectiveness of the review processes over the ESS risk rating and CSC2 input form – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Enhance the process for removing user access as part of the employee separation process – **FULLY IMPLEMENTED**
- **Recommendation 3** – Expand its review process over the privileged access groups – **FULLY IMPLEMENTED**
- **Recommendation 4** – Establish a review process for privileged access to the application servers – **FULLY IMPLEMENTED**
- **Recommendation 5** – Configure the password settings for its servers in accordance with its Access Control Policy – **CONCUR, WORKING TO IMPLEMENT**

February 9, 2015 – Independent Audit of Ex-Im Bank's Information Security Program for FY 2014 (OIG-AR-15-03)

- **Recommendation 1** – Deploy mobile phone security controls – **FULLY IMPLEMENTED**
- **Recommendation 2** – Improve Controls over Remote Access – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Establish effective control activities over submission of the sponsored travel vouchers – **CONCUR, WORKING TO IMPLEMENT**

March 23, 2015 – Audit of Ex-Im Bank's Short Term Multi-Buyer Insurance Program (OIG-AR-15-0)

- **Recommendation 1** – Develop and implement procedures to ensure underwriting summaries clearly present the required information – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Ensure operating profit information is collected for Express transactions – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Develop a procedure to ensure CRTI checks are completed – **FULLY IMPLEMENTED**
- **Recommendation 4** – Provide additional professional training and enhance communication amongst TCID underwriters and directors – **CONCUR, WORKING TO IMPLEMENT**

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- **Recommendation 5** – Consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Make the necessary changes to EOL and the Manual to ensure exporter scores are properly calculated – **CONCUR, WORKING TO IMPLEMENT**

March 31, 2015 – Report on Ghana Credits: Ridge Hospital Complex & Kumawu-Mampong Water Treatment Works (OIG-INS-15-01)

- **Recommendation 1** – Conduct a post mortem review of the Kumawu-Mampong Transaction – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Follow OECD DAC Guidelines for developmental projects that contain a Tied Aid component – **CONTINUE TO WORK WITH OIG**
- **Recommendation 3** – Consistently adhere to the monitoring requirements set forth in the Credit Agreement – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 4** – Establish policies and procedures for the borrower and end-user to address grievances with the Bank – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5** – Ensure it establishes a uniform record keeping system – **CONCUR, WORKING TO IMPLEMENT**

March 31, 2015 – Independent Audit on Ex-Im Bank's Planning and Implementation of FMS-NG (OIG-AR-15-05)

- **Recommendation 1** – Plan and document data-conversion activities – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Save key evidence of FMS-NG data-conversion activities – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Centrally organize and maintain all planning, converting, testing and implementation documentation – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 4** – Document formal account management procedures – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5** – Develop and implement an access request form – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Develop and implement separation-of-duties requirements – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Develop and document contingencies for essential functions – **CONCUR, WORKING TO IMPLEMENT**

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May 12, 2015 – Improper Payments Reporting (OIG-AR-15-06)

- **Recommendation 1** – Align the Bank's Process and Procedures for Improper Payments with OMB requirements - **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Review the Improper Risk Assessment Questionnaire - **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Review the Improper Payment Risk Assessment prior to the issuance of the Annual Financial Report - **CONCUR, WORKING TO IMPLEMENT**

February 11, 2015

The Honorable John Boehner
Speaker of the
House of Representatives
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Democratic Leader
House of Representatives
Washington, D.C. 20515

The Honorable Harry Reid
Democratic Leader
United States Senate
Washington, D.C. 20510

Dear Speaker Boehner, Senator McConnell, Senator Reid, and Representative Pelosi:

We recognize the many challenges requiring Congressional attention today, but as the 114th Congress begins its work this year, we write to encourage Congress to make one a particular priority - the reauthorization of the US Export-Import Bank, or Ex-Im Bank.

From our prior experience in government, each of us has seen how commercial and economic diplomacy have become critical elements of US national security. The involvement of US companies in emerging markets is fundamentally beneficial to the American economy while helping to drive growth, prosperity and political stability abroad. When companies in America export their goods to foreign countries, they promote transparency and sound business practices, and in many cases share knowledge, provide training, and increase investment and employment in the markets where they operate. All of this helps to spread American values and strengthen our interests, while creating jobs and sustaining economic growth here in the United States. American economic engagement through exports to foreign countries is truly a win-win proposition, and the American government must do what it can to support our companies on the front lines.

The Ex-Im Bank is one of the most important tools in our system of government to enable US companies to compete and secure business in overseas markets. As much as the United States has done to promote the creation of free markets and fair trade, it remains an imperfect world. The foreign competitors of US manufacturers all have access to export credit agencies in their countries of origin – many of which are much larger and do not abide by the same stringent rules as the Ex-Im Bank. The Ex-Im Bank levels the playing field for our companies, whether small, medium or large, and enables them to participate in international tenders where their goods and services will be evaluated on an equal basis against their foreign competitors. Indeed, many global customers require access to export credit agency funding as a prerequisite to submit a proposal. Without access to the Ex-Im Bank, US manufacturers could lose deals before they even begin to assemble their bids.

To us, it is inconceivable that some in Congress could contemplate dismantling the Ex-Im Bank while the dynamics of global trade remain as they are. Unilateral disarmament has never been considered a viable defense policy, and we cannot think of a reason why it should be considered a rational export

policy. By way of example, the government of China has announced a new initiative to devote an additional \$10 billion in export credit to Africa – bringing China's total to \$30 billion, roughly the equivalent of the Ex-Im Bank's global volume for the year. This will enable Chinese firms to expand their reach in the continent – particularly in the infrastructure sector, where projects can have a lifespan of twenty to thirty years. In an environment such as this, we should be exploring how to strengthen the Ex-Im Bank through sound reform and expand its efforts to counter the aggressive moves of our economic competitors.

We urge you to support reauthorization of the Ex-Im Bank's charter immediately. Our national security and economic interests depend upon it.

Sincerely,

Madeleine Albright, Former U.S. Secretary of State

Richard Armitage, Former U.S. Deputy Secretary of State

Samuel Richard "Sandy" Berger, Former U.S. Assistant to the President for National Security Affairs

William Cohen, Former U.S. Secretary of Defense

Kenneth M. Duberstein, Former White House Chief of Staff

Carlos Gutierrez, Former U.S. Secretary of Commerce

Stephen Hadley, Former U.S. Assistant to the President for National Security Affairs

Carla Hills, Former U.S. Trade Representative

General James L. Jones, Former U.S. Assistant to the President for National Security Affairs and Former Supreme Allied Commander Europe and Combatant Commander

Ron Kirk, Former U.S. Trade Representative

Thomas "Mack" McLarty, Former White House Chief of Staff

John Negroponte, Former Director of National Intelligence

**RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN SHELBY
FROM FRED P. HOCHBERG**

Technical Defaults

Q.1. In 2012, EXIM's Inspector General reported that EXIM's limited definition of default may result in an understatement of the Bank's historical default experience. Specifically, the IG noted that EXIM uses a definition of default that does not include technical defaults—that is, defaults that reflect a client's failure to comply with specific conditions in the loan agreement *other than* requirements for repayment.

- Does EXIM determine the prevalence of technical defaults in its portfolio?
- To what extent do technical defaults provide an early warning of future credit defaults?
- Do you think it is a problem that EXIM may not properly estimate historical defaults?
- How can you assess future performance if you do not have a good sense of historical defaults?
- What would EXIM's default rate be if it included technical defaults?

A.1. The Bank's default rate was established by Congress in Public Law 112–122, the Export-Import Bank Reauthorization Act of 2012. Section 6 of the Reauthorization Act mandates the Bank to calculate the “default on a payment obligation, by dividing the total amount of the required payments that are overdue by the total amount of the financing involved.” The Bank is fully compliant with reporting defaults as defined and required by Congress. During his recent testimony to the U.S. Congress, the Acting Inspector General for the Export-Import Bank noted on the default rate that “Congress provided the formula to how the Bank calculates that. They have reported that. They have been transparent about that formula.”¹

This default rate is very similar to that of the private sector. The Federal Reserve reports the charge-off rates from banks, using data from the Federal Financial Institutions Examination Council. The definition of charge-offs is similar to mandated default rate. Charge-offs, which are the value of loans removed from the books and charged against loss reserves, are measured net of recoveries as a percentage of average loans and annualized.

Technical defaults are not predictors of future credit defaults. Simple reporting requirements such as a 1-day delay in providing financial statements would be considered a technical default but

¹Examining the Export-Import Bank's Reauthorization Request and the Government's Role in Export Financing: Hearing before the Committee on Financial Services, U.S. House of Representatives (June 3, 2015) (Testimony of Mike McCarthy).

has no bearing on future payment defaults. EXIM Bank risk rates all transactions above \$2 million on an annual basis. This risk rating is the appropriate predictor of future defaults.

The Bank properly estimates historical defaults. Every year, the Office of Inspector General (OIG) audits the Bank's financial statements through an external auditor, Deloitte and Touche. As part of their audit, the external auditors analyze and review the Bank's historical defaults which are used as the basis for future loss estimation or future performance. The Bank has received unqualified or "clean" opinions going back 25 years. The Bank was also recently audited by the Government Accountability Office (GAO). In their audit, GAO noted that the Bank includes "default and loss history" to develop the loss estimation model.²

Lack of Historical Data, Vintage Analysis

Q.2. In 2013, the Government Accountability Office recommended that EXIM retain point-in-time, historical data on credit performance to conduct vintage analysis comparing the performance of newer and older business. This technique can help evaluate the credit quality of recent business by comparing the early performance of these cohorts of financing with the early performance of older financing cohorts. It can provide early warning of potential performance problems in newer business.

- For what product types has EXIM conducted vintage analysis?
- What has EXIM's analysis shown about the early performance of its recent business compared to older business at comparable points in time?
- Has EXIM incorporated this data into its risk management practices?

A.2. The Export-Import Bank of the United States has retained, beginning in 2013, point-in-time historical data for all major product types. In fact, GAO recently issued a report examining the status of this recommendation which stated, "EXIM began retaining such data in 2013. We therefore consider this recommendation implemented and closed."³

This technique has helped EXIM Bank evaluate the credit quality of recent business by comparing the early performance of these cohorts of financing with the early performance of older financing cohorts. Generally, recent business has performed better than older financing at comparable points in time. Finally, the Bank has incorporated this data into its risk management practices.

Stress-Testing

Q.3. In 2013, GAO recommended that EXIM report its stress test scenarios and results to Congress. Although EXIM subsequently began providing stress test information in its quarterly default rate reports, the reports do not analyze the adequacy of EXIM's loss reserves under the stress scenarios or how the concentration of EXIM's portfolio in certain industries and regions could affect losses.

² GAO-13-303, <http://www.gao.gov/assets/660/653373.pdf>.

³ GAO-15-551, <http://www.gao.gov/assets/670/669646.pdf>.

- Without this data, how can EXIM be sure that it has sufficient loss reserves?
- Under what stress scenarios are EXIM's loss reserves adequate to cover the corresponding losses?
- What progress has EXIM made, since 2013, to improve its stress testing analyses by examining the impact of correlated risks within the industries and regions where EXIM's portfolio is concentrated?

A.3. As you mention, EXIM Bank has reported stress testing scenarios and results to Congress. In fact, GAO issued a report examining the status of this recommendation which stated "EXIM began reporting its scenarios and results in quarterly reports to Congress on default rates, beginning with the report for the fourth quarter of 2013. In that report, EXIM described the stress test scenarios and provided some information about results. Hence, we consider this recommendation implemented and closed."⁴

EXIM Bank compares the adequacy of loss reserves under the stress scenarios and has reviewed how the concentration of the Bank's aircraft portfolio could affect losses. The Bank has appropriate reserves to cover all expected losses. Every year, the OIG audits the Bank's financial statements through the external auditor Deloitte and Touche. As part of their audit, the external auditors analyze and review the Bank's historical defaults which are used as the basis for reserves for expected losses. The Bank has received unqualified or "clean" opinions going back 25 years.

Risk and Soft Portfolio Targets

Q.4. The Inspector General has recommended that EXIM set "soft portfolio concentration limits" for EXIM-informal thresholds for total exposure in industry, region, or risk ratings to use as internal guidance.

- What evaluation has EXIM completed with respect to this approach?
- What decisions has EXIM made about using such limits to help the bank manage its risk?
- If such limits are not being implemented, why not?

A.4. EXIM Bank has begun building a portfolio risk dashboard that has soft portfolio limits within it by industry, region, and risk ratings. This dashboard has been presented in its test phase to the Bank's Enterprise Risk Committee (ERC). The ERC approved the implementation of soft portfolio concentration limits by the 4th quarter of fiscal year 2015. However, due to a lapse in EXIM's authority, as of July 1, 2015, the Bank is unable to process applications or engage in new business or other prohibited activities. Work on the impact of new authorizations on soft portfolio concentration limits has ceased. Currently, the Bank is building functionality into the dashboard to ascertain the impact of macroeconomic conditions on the Bank's existing portfolio.

⁴GAO-15-557, <http://www.gao.gov/assets/670/669646.pdf>.

Transparency

Q.5. The National Review reports that around July of last year, the Bank decided to take down Bank data, listing company and lender names from “Data-dot-gov for more than 7 months. When information reappeared, it was abridged and missing fields like “primary buyer” and peppered with references to “unknown,” “various,” and the like. The National Review reports that the only information on the site was business names, and not proprietary information.

- Why did the EXIM first restrict and then “scrub” its publicly available data?
- Wouldn’t the information be useful to inform the public, and Congress, for that matter, where EXIM’s taxpayer-backed billions are being spent, particularly what foreign countries?
- The National Review suggests that the Chairman made the decision to remove and scrub the data, is that true?

A.5. In response to exporter feedback, in early 2015, EXIM undertook a review of the published datasets. The Bank’s Office of General Counsel received customer feedback on the Bank’s data as presented to the public. Based on the feedback provided, the Bank’s Office of General Counsel, the Office of the Chief Financial Officer, and the Office of the Chief Information Officer recommended to the Bank’s Chief Risk Officer that the datasets be temporarily taken down and revised to protect exporters’ business confidential information. After the action was taken, the Chairman was made aware of the feedback and remedy to temporarily remove the datasets from the public site in order to clarify and revise the data. The Chairman directed Bank management and staff to quickly address any issues and return the data to the public electronic forum. The datasets were removed from the Bank’s Web site for 15 days.

The Bank is committed to transparency and the datasets continue to provide information useful to inform the public and Congress on the Bank’s transactions. In fact, on May 27, 2015, at the request of the House Oversight and Government Reform Committee (HOCR) majority staff, the Bank’s Senior Vice President of Congressional Affairs, Chief Information Officer, Chief Financial Officer, and Deputy Chief Financial Officer briefed the majority staff on the datasets as revised and explained the data provided and clarifications made.

To eliminate duplicative fields, the Bank consolidated two datasets into one dataset that includes all authorization supported by the Bank. The single consolidated dataset provides easier and more user friendly access to Bank information. The Bank removed certain business confidential fields in the dataset based on feedback from customers. The following fields were removed from the dataset: primary supplier, primary buyer, first claim payment date, claims paid amount, Dun and Bradstreet (D&B) number, and applicant contact information (which included various fields such as name, street, city, *etc.*). The removal of these fields related only to the Bank’s voluntary and proactive release of information in the electronic open formats.

The public dataset continues to include the exporter and primary source of repayment for all transactions. For example, for medium and long term transactions, the same information was presented in

both the supplier and buyer fields (*i.e.*, the “exporter “ is also the “primary supplier”, and the “primary buyer” is also the “primary source of repayment”). The dataset includes multiple participants for each authorization (*i.e.*, applicant, lender, exporter, borrower, and primary source of repayment). These participants can be and usually are different entities within the same authorization. As such, claim information fields and D&B number were removed from our proactive disclosure format as this information, when associated incorrectly to participants in a specific authorization, would be misleading.

The Bank added new fields in the dataset to provide more information to the public. The following data fields were added to the dataset: “Primary Export Product NAICS/SOC Code” (Column 14), “Primary Exporter City” (Column 20), “Primary Exporter State Abbreviation” (column 21), and “Primary Exporter State Name” (Column 22).

In addition, the datasets, as they originally appeared, contained designations of “N/A” and “Various”, however, the revision of the datasets is eliminating or clarifying such designations.

In most cases, the “N/A” denotes “not applicable” as certain categories do not apply to all transaction types. In some instances, the “lender” field includes authorizations where the lender is identified as “N/A.” The primary reason for this designation is that these authorizations are insurance transactions where there is no lender involved. In other cases, the “exporter” field includes various records where the exporter is identified as “N/A”. The primary reason for this designation relates to commercial bank-held insurance policies which involve multiple buyers and exporters that are not specifically identified at the time the policy is authorized. At the time of shipment, the precise names of the exporter and buyers are then reported to the Bank. To improve clarity of data, the Bank revised the “N/A” value to the “exporter” field to “Multiple-Exporters” for these transactions. Last, a smaller subset of authorizations where the exporter name is identified as “N/A” related to older insurance transactions that migrated from a legacy system and the information is no longer available. The information is over 9-years old and dates from a 2006 data conversion and is a small subset of insurance transactions.

The “country” and “borrower” fields include authorizations listed as “Various-Insurance”. These authorizations are for the multi-buyer insurance program where each transaction can and generally does include more than one buyer. As such, the “country” and “borrower” field include the descriptor “Various-Insurance”. To better communicate this information, the Bank revised the field name to “Multiple-Countries” and “Multiple-Borrowers” to better reflect these fields.

Attached for your reference is the list and description of all fields reported in the electronic open formats.

This file contains all authorizations approved between 10/01/2006 and 09/30/2014. Each application is 1 line. The columns included in the file are listed below.

Column #	Column Name	Description	Sample Values
1	Fiscal Year	Fiscal Year of the decision on a deal	2012
2	Unique Identifier	A unique identifier attached to each deal.	D8075771XE0001
3	Deal Number	The deal identifier typically used in documents relating to a deal.	AP081940XX or 115642
4	Decision	Whether a deal was Approved or Denied	Approved or Denied
5	Decision Date	The date of approval or denial.	6/23/2006
6	Effective Date	For the insurance program, this is the effective date of an insurance policy. For guarantees and direct loans it is the operative date of the credit, and it is not applicable for Working Capital as the date is agreed upon between the delegated lender and the primary exporter.	6/23/2006
7	Expiration Date	The expiration date for a guarantee or insurance policy.	6/23/2006
8	Brokered (Y/N)	A flag showing whether an insurance policy was brokered or not.	Y or N
9	Transaction Cancelled (Y/N)	A flag showing if an approved transaction was cancelled after approval.	Yes or No
10	Country	The country where the credit risk is. This is typically the country of the buyer on a deal except for Working Capital guarantees or multibuyer insurance policies where the buyer is not known.	Brazil
11	Program	The financing program that was applied for.	Guarantee, Insurance, Loan, Working Capital
12	Policy Type	A code for the insurance policy type. Policy Type decode is below. Note: this only applies to the Insurance program.	see decode below.
13	Decision Authority	The level of authority that made the decision on the deal.	Board, Individual Delegated Authority, or Loan/Credit Committee
14	Primary Export Product NAICS/SIC Code	The industry code of the product that was exported when reported to Exim Bank. A Standard Industry Classification code (SIC) is 4 digits, whereas the North American Industry Classification System code (NAICS) is 6.	424910
15	Product Description	A generic description of the product that was exported.	
16	Term	The length of the financing on a deal.	Long Term, Medium Term, or Short Term

17	Primary Applicant	The company name of principal Applicant on a deal. Note: for Working Capital Delegated Authority transactions the Primary Lender serves as the Primary Applicant for the Primary Exporter.	Wells Fargo Bank Minnesota Na
18	Primary Lender	The company name of principal Lender on a deal.	Wells Fargo Bank Minnesota Na
19	Primary Exporter	The company name of principal Exporter on a deal.	Caterpillar Inc.
20	Primary Exporter City	The city of the Primary Exporter.	Thompson
21	Primary Exporter State Abbreviation	The state abbreviation of the Primary Exporter.	CT
22	Primary Exporter State Name	The state name of the Primary Exporter	New York
23	Primary Borrower	The company name of principal Borrower on a deal.	Siderurgica Lazaro Cardenas Las Truchas
24	Primary Source of Repayment (PSOR)	The primary borrower or guarantor responsible for repayment.	
25	Working Capital Delegated Authority (Y/N)	A flag showing whether a Working Capital deal was decided under its' Delegated Authority program.	No or Yes
26	Approved/Declined Amount	The amount of financing approved or declined.	\$1,000,000
27	Disbursed/Shipped Amount	The amount of the loan or guarantee that has been disbursed or the amount that has been shipped on an insurance policy as of the date this data set was generated.	\$1,000,000
28	Undisbursed Exposure Amount	The difference between the Approved Amount and the Disbursed/Shipped Amount as of the date this data set was generated.	\$1,000,000
29	Outstanding Exposure Amount	The portion of the Disbursed/Shipped Amount that has not been repaid as of the date this data set was generated.	\$1,000,000
30	Small Business Authorized Amount	The portion of an approved amount that assisted a small business.	\$1,000,000
31	Woman Owned Authorized Amount	The portion of an approved amount that assisted a woman owned company.	\$1,000,000
32	Minority Owned Authorized Amount	The portion of an approved amount that assisted a minority owned company.	\$1,000,000

Policy Type Decodes:

ASB	Short Term Exporter Held Single Buyer
ASB-A	Short Term Exporter Held Single Buyer
EBM	Short Term Bank Held Multibuyer
EBS	Short Term Bank Held Multibuyer
ELC	Short Term Bank Held Multibuyer
ELF	Medium Term Single Buyer
ENB	Short Term Exporter Held Multibuyer
ENV	Short Term Exporter Held Multibuyer
ESC	Short Term Exporter Held Multibuyer
ESP	Short Term Exporter Held Multibuyer
ESS	Short Term Exporter Held Single Buyer
ESS-A	Short Term Exporter Held Single Buyer
ESSP	Short Term Exporter Held Single Buyer
EXP	Short Term Exporter Held Multibuyer
FB	Short Term Bank Held Single Buyer
FB-A	Short Term Bank Held Single Buyer
FBIC	Short Term Bank Held Single Buyer
FV	Short Term Bank Held Single Buyer
MDF	Single Buyer
MSC	Single Buyer
MSC-E	Single Buyer
MSM	Medium Term Single Buyer
MTA	Medium Term Single Buyer
MTR	Medium Term Single Buyer
MTS	Medium Term Single Buyer
QLC	Short Term Bank Held Multibuyer

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ
FROM FRED P. HOCHBERG**

EXIM and Free Trade Agreements

Q.1. As we all know, TPP negotiations are nearly complete and a final agreement for T-TIP is expected in the next year or so. Given that the U.S. is apparently about to enter into the two largest free trade agreements it has ever joined, and that other countries continue to expand their use of export credits, whatever you make of those agreements themselves, now is certainly not the time to unilaterally give up this important economic tool.

President Hochberg, how do you view the relationship of EXIM to our trade agenda?

A.1. EXIM Bank is, and always has been, a support player or tool in America's larger trade policy agenda. For example, when that agenda tilts against an issue or country, such as trade sanctions, EXIM follows that direction in terms of the availability of official export credit. When the trade agenda tilts in support of some issue or country, such as trade agreements, EXIM supports export sales under those agreements. In effect, EXIM is used as an implementing tool of a broader U.S. Government trade policy. Trade agreements open doors for exporters and EXIM Bank helps them close deals. Without the tools EXIM provides, many American businesses would be unable to compete on a level playing field with foreign firms, access the working capital needed to take on and fulfill sales, and mitigate the risks of the international marketplace. EXIM support improves the competitiveness, risk management, and liquidity of American businesses. The absence of such support would mean missed opportunities, lost sales, and, ultimately, fewer jobs.

International Negotiations to Reduce Export Credits

Q.2. Some of the witnesses at the June 2nd hearing argued that the fact that 60 other countries maintain export credit agencies should not keep us from shuttering (shutting down) the EXIM Bank. And I agree that in a perfect world, maybe it would be best if no country provided government-backed export financing.

But if Congress were to close the EXIM Bank today, what options would the U.S. have to convince countries like China, Brazil, and Russia to refrain from using export credits to undercut U.S. manufacturers?

A.2. In today's world of long-term export financing, the arguments available to convince major official export credit providers are very limited. In recent years, commercial banks have indicated that the booking and holding of long-term foreign assets is no longer a core part of their business model.¹ In fact, almost all major project financings outside of the Organisation for Economic Co-operation and Development (OECD) have an important Export Credit Agency (ECA) component.² Therefore, foreign governments do not have a

¹ EXIM, 2014 Competitiveness Report, http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

² EXIM, 2014 Competitiveness Report, http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

strong incentive to stop providing export financing through ECAs. Moreover, foreign governments often view export financing as a vital component in supporting domestic jobs and exports, whereas EXIM Bank is largely used to fill in the gap and level the playing field.

Unilaterally disarming means that other countries around the globe have a financing tool available to them that exporters in the United States would no longer have available to them. As a senior official from China's Export-Import Bank told reporters recently, EXIM going away would be "a good thing" for China.³ The Export-Import Bank of India's chairman also recently commented that "we think that the role of ECAs (export credit agencies) in countries like India, ones in Asia is immense. In fact, seeing our pattern, many other countries are opening up Exim Banks. With US Exim Bank closing down, we would now have more market, because, Indian products were competed by U.S. products. Now that competition will go away".⁴

EXIM has worked with a range of manufacturers including small, medium, and large, but the majority of our customers are small businesses. Of the 3,700 authorizations EXIM completed in 2014, more than 3,300—or nearly 90 percent—directly served U.S. small business. Last year, EXIM supported 164,000 U.S. jobs and over the past 6 years, more than 1.3 million American jobs. At the same time, through the fees and interest we charge our customers, the Bank also generated a surplus of \$675 million profit for American taxpayers in 2014, above and beyond all costs.

Current headlines have argued that the lapse of EXIM will "leave the field to China" as China has "lent extensively to Africa and has set up a family of joint funds on that continent, in the Middle East, and in Europe."⁵ China's medium- and long-term export credit financing grew by 40 percent last year, from \$40.6 billion in 2013 to \$58.0 billion in 2014.⁶ In addition, Japan, Korea, Russia, Germany, France, United Kingdom, Brazil, and others all indicated that they expect to accelerate their financial backing for their exporters.

We are very concerned about the impact that the lapse in authorization is having on U.S. exporters and the ability of those exporters to receive the financing they need to export goods.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR COTTON FROM FRED P. HOCHBERG

Q.1. In response to my question about the percentage of EXIM Bank's business that is in direct response to foreign government export subsidies, you stated that it was approximately "two-thirds" of the Bank's portfolio, which is substantially different than the 32.7 percent calculated from your 2013 Annual Report and offered

³ <http://www.reuters.com/article/2015/06/24/usa-congress-exim-idUSL1N0Z80W420150624>.

⁴ http://www.business-standard.com/article/finance/q-a-with-exim-bank-cmd-with-us-exim-bank-closing-we-would-have-more-market-115071400885_1.html.

⁵ Financial Times, Demise of the US Eximbank would leave the field to China, June 22, 2015, <http://blogs.ft.com/beyond-brics/2015/06/22/demise-of-the-us-ex-im-bank-would-leave-the-field-to-china/>.

⁶ EXIM, 2014 Competitiveness Report, http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

by an expert witness in the Senate Banking Committee's hearing on June 2.

What is the basis for your "two-thirds" figure? For additional reference, your institution's 2013 Competitiveness Report also presented data in line with the estimate of one-third (see Figure 73, page 113).

Are both of these data sources inaccurate or did you misstate the extent to which EXIM Bank countervails foreign subsidies?

A.1. Thank you for the opportunity to clarify the potential foreign competition data found in the EXIM Bank's Annual Report¹ and its Report to the U.S. Congress on Global Export Credit Competition² ("Competitiveness Report").

Congress requires EXIM to include in the annual Competitiveness Report a breakdown of the purposes for EXIM support for transactions. The purposes of EXIM support for transactions are to fill the financing gap when private sector financing is limited or unwilling to take risks, or to counter potential foreign ECA competition.

The two-thirds figure cited at the June 4 Senate Banking Committee hearing referred to the percentage of FY2014 EXIM long-term guarantee authorizations "to meet competition from a foreign, officially sponsored, export credit agency."³ For the overall EXIM portfolio, 46 percent of EXIM's authorizations were to meet foreign competition⁴ in 2014, 38 percent in 2013,⁵ and 34 percent in 2012.⁶

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SASSE FROM FRED P. HOCHBERG

Q.1. The Export-Import Bank offers a number of different products, including loan guarantees, working capital guarantees, and direct loans. Do you have evidence about whether these products are equally valuable to companies, or are certain products more useful than others? For example, can you quantify how frequently companies use products? Have you conducted a survey of companies to see which products they believe are the most useful?

A.1. EXIM Bank creates programs that respond to a wide array of specific congressional mandates including providing competitive export credit financing *vis-a-vis* officially supported export credits provided by foreign governments and complementing, not competing with, private sources of financing; Each of the Bank's programs plays an important role in fulfilling the objectives set forth in the Bank's charter. Given the broad scope of these mandates,

¹ Export-Import Bank of the United States Annual Report 2014. <http://www.exim.gov/sites/default/files/reports/annual/EXIM-2014-AR.pdf>.

² Export-Import Bank of the United States Report to the U.S. Congress on Global Export Credit Competition, June 2015. http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

³ Export-Import Bank of the United States Annual Report 2014, p. 45–49. <http://www.exim.gov/sites/default/files/reports/annual/EXIM-2014-AR.pdf>.

⁴ Export-Import Bank of the United States Report to the U.S. Congress on Global Export Credit Competition, June 2015, p.91. http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

⁵ Report to the U.S. Congress on the Export-Import Bank of the United States and Global Export Credit Competition, June 2014, p.113. <http://www.exim.gov/sites/default/files/newsreleases/Eximbank-Bank-2013-Competitiveness-Report-to-Congress-Complete.pdf>.

⁶ Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, June 2013, p. 149. <http://www.exim.gov/sites/default/files/newsreleases/US-Eximbank-Bank-2012-Competitiveness-Report-to-Congress-Complete.pdf>.

the Bank has established programs that cover a cross section of economic sectors, markets, and exporter size/profiles that address gaps in the availability of export credits arising from either foreign competition or lack of commercial financing.

As a counter-cyclical institution, the utilization of EXIM Bank and its financial products is entirely dependent on the activity level in the commercial market. The Bank's programs and activity levels by program are summarized in the attached chart which indicates EXIM Bank authorizes more Insurance and Working Capital transactions than Loan Guarantees or Direct Loans. The Insurance and Working Capital programs are used by American companies, predominantly small businesses, to finance their exports of goods, while the Guarantee and Direct Loan programs are used by foreign buyers to finance their purchases of U.S. goods and services.

EXIM Bank routinely seeks the feedback of its customers to improve. Since 2012, EXIM has employed a Vice President of Customer Experience whose work is dedicated to soliciting and assessing feedback on EXIM's products in the context of our customers' business, exports, and employment base. This division conducts an annual, customer experience survey, which provides customers with the ability to share their thoughts via surveys, interviews and roundtables. EXIM then takes the information to bring attention to issues, identify solutions, and prioritize action steps. This information is posted on *EXIM.gov*.

Q.2. The Export-Import Bank purports to create a "surplus" for taxpayers, including in 2014.

- a. Setting aside the debate over the Bank's accounting and profits, do all of the Bank's main products have approximately the same fiscal record? Or does one program that generates a greater "surplus" make up for a program with a weaker track record?
- b. Does each program generate a surplus, under the Bank's accounting assumptions?

A.2. EXIM Bank has sent a net \$6.9 billion to the U.S. Treasury since 1992. This net amount sent to the U.S. Treasury is after paying for all expenses, including prudent loan loss reserves. In fact, the Government Accountability Office (GAO) issued a report which determined that "EXIM's figures for appropriations received and amounts sent to Treasury were reasonable based on our analysis of EXIM appropriations acts, budget appendixes, and financial statements."¹

The Bank charges fees for its' financing support which are used to set aside prudent loan loss reserves. Fees in excess of these loan loss reserves are classified as offsetting collections which are used to pay for the Bank' administrative expenses. After paying administrative expenses, the remaining balances are sent to the U.S. Treasury at the end of each fiscal year. Typically, large and long-term transactions create the largest surpluses while small-term transactions are on a break-even basis. The majority of offsetting collections earned by the Bank are from long-term transactions. Generally, the Bank's medium-term, short-term, and working cap-

¹ GAO-13-303, <http://www.gao.gov/assets/660/653373.pdf>.

ital programs—which primarily benefit small businesses—cover all loan loss reserve requirements but do not generate offsetting collections.

Q.3. The Bank has a number of lending “mandates,” including that it must make 10 percent of its authority available to renewable energy, 20 percent available to small business lending, and that it must also promote activity in Sub-Saharan Africa.

- a. Can you provide the default rates for the transactions that purport to meet the “mandates” and compare that to the default rate for the nonmandated transactions?
- b. Is there a higher default rate amongst these products, compared to the average product?

A.3. EXIM Bank has three congressional mandates for small business, sub-Saharan Africa; and environmentally beneficial transactions. The Bank takes very seriously these Congressional mandates while ensuring a reasonable assurance of repayment to protect the U.S. taxpayer. The Bank also reports defaults every 90 days to the House Financial Services Committee and Senate Banking Committee. These default rate reports include a section on Default Rate: by Mandate. This section is located on page 8 of the Bank’s June 2015 Default Rate report which is attached.

These mandates account for over 11 percent of the total amount of EXIM financing and all mandates have experienced a default rate below the 2 percent threshold established by Congress for the overall portfolio. As of June 2015, the Bank’s overall default rate was 0.243 percent, small business default rate was 0.484 percent, sub-Saharan Africa default rate was 0.119 percent, and environmentally beneficial was 1.021 percent.

Q.4. We’ve heard how the Export-Import Bank “supports” jobs and exports. For example, according to the Bank’s analysis, in 2014 the Bank “supported” 164,000 jobs and \$27.4 billion in exports. Notably, there’s a difference between “supporting” jobs and “creating” jobs.

- a. What percentage of these jobs and exports would disappear without the Bank, and why?
- b. What percentage of this economic activity would exist, but in a different sector?
- c. Has the Export-Import Bank conducted an in-depth study of these issues? If not, can the Bank commit to studying this question in depth?

A.4. EXIM Bank’s jobs estimate methodology follows the standard governmentwide jobs calculation methodology designated by the Trade Promotion Coordinating Committee, which uses employment data computed by the Bureau of Labor Statistics (BLS) to calculate the number of jobs associated with EXIM supported exports of goods and services.

The Bank uses the latest available domestic employment requirements table (ERT) as computed by the BLS to calculate the number of jobs associated with EXIM supported goods and services. The ERT quantifies the number of direct and indirect production related jobs associated with a million dollars of final demand for 196

detailed industries. The ERT is derived from a set of data showing the relationship between industries, known as input-output tables. These tables are based on historical relationships between industry inputs (*e.g.*, labor) and outputs (*e.g.*, goods for consumption).

For jobs estimates based on FY2014 authorizations, EXIM Bank supports a baseline average of 6,190 jobs per \$1 billion of U.S. exports. This average is weighted, however, based the specific exports the Bank finances and on each industry's relative jobs per \$1 billion average at time of calculation.

In 2014, EXIM approved over 3,700 authorizations with a total estimated export value of nearly \$27.5 billion. This support equipped U.S. businesses to create or sustain approximately 164,000 export-related U.S. jobs based on the above criteria.

The basic judgments EXIM makes on every case are that the transaction is creditworthy to our standards, that the activity fits our mandates, and that there is a reasonable risk the transaction will not go forward without EXIM support. EXIM has been researching this issue for decades because the answers are central to the long-running question as to the net value added by the Bank, particularly when EXIM activity carried a budget cost. However, because the determinants are so transaction/sector/company-specific, the best examples are of sales EXIM denied in late stages of transactions. In cases where transactions have been denied late in the process, evidence shows that most of the foreign sales can and do go to companies from other countries. More importantly, the "chilling" effect of the lack of availability for future EXIM support of American exporters dramatically contributes to probable job losses.

Without EXIM support, U.S. labor and capital resources may not simply shift to other sectors. As with all individual sales, the amount of efficient shifting of U.S. resources to other production depends greatly on the level of aggregate demand in the overall economy. Furthermore, any shift of resources may be to a less efficient use. Given that EXIM financing ensures that a transaction stimulated by market factors such as price and quality is not lost due to nonmarket influences such as foreign ECA competition, there is a real chance that the associated resources would go to a second or third-best productivity use, particularly at a time of less than perfect aggregate demand.

Ex-Im Bank Authorizations for FY2013, FY2014, and FY2015 through May 31

Program	Term	Authorization Count Thru 5-31-2015	Authorization Count FY 2014	Authorization Count FY 2015	Authorized Amount Thru 5-31-2015	Authorized Amount FY 2014	Authorized Amount FY 2015
Loan	L	3	14	29	\$14,513,771	\$1,927,592,209	\$6,878,443,455
Loan Total		3	14	29	\$14,513,771	\$1,927,592,209	\$6,878,443,455
Guarantee	L	30	51	73	\$4,685,087,653	\$10,799,249,361	\$12,179,684,438
Guarantee	M	31	58	68	\$111,348,975	\$134,963,272	\$152,530,481
Guarantee Total		61	109	141	\$4,796,436,630	\$10,924,212,633	\$12,312,204,920
Insurance	M	24	58	70	\$36,337,472	\$98,512,908	\$101,713,273
Insurance	S	1,826	3,078	3,027	\$2,510,890,434	\$5,107,299,566	\$5,440,295,229
Insurance Total		1,850	3,136	3,097	\$2,547,327,906	\$5,205,812,474	\$5,542,008,619
Working Capital	S	170	488	575	\$468,682,481	\$2,410,033,506	\$2,614,938,055
Working Capital Total		170	488	575	\$468,682,481	\$2,410,033,506	\$2,614,938,055
Grand Total		2,084	3,745	3,842	\$7,826,960,789	\$20,467,650,822	\$27,347,595,043

DEFAULT RATE REPORT

AS OF
JUNE 2015



FISCAL YEAR 2015 (Q3) DEFAULT EXPERIENCE
EXPORT-IMPORT BANK OF THE UNITED STATES

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Executive Summary

MISSION

The mission of the Export-Import Bank ("Ex-Im Bank" or "Bank") is to enable U.S. companies – large and small – to turn export opportunities into sales that maintain and create U.S. jobs and contribute to a stronger national economy. The Bank achieves this mission by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing. Ex-Im Bank also steps in when financing support is necessary to level the playing field for U.S. exporters that are in competition with foreign companies supported by financing from their official foreign export credit agencies (ECA).

REAUTHORIZATION

On May 30, 2012, the President signed Public Law 122-122, an Act to Reauthorize the Export-Import Bank of the United States. Section 6 of the Reauthorization Act requires:

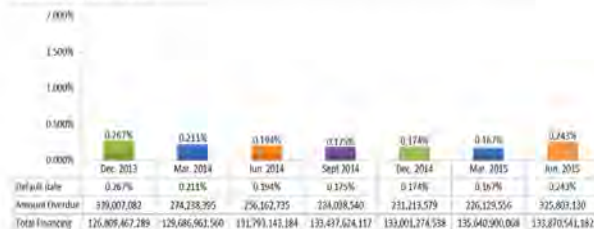
"(1) MONITORING OF DEFAULT RATES.—Not less frequently than quarterly, the Bank shall calculate the rate at which the entities to which the Bank has provided short-, medium-, or long-term financing are in default on a payment obligation under the financing, by dividing the total amount of the required payments that are overdue by the total amount of the financing involved."

As mandated, Ex-Im Bank will report on its default rate, as defined in the section above, on a quarterly basis corresponding to the quarters of the fiscal year. This report is as of June 2015 and is based on annually audited financial data.¹

DEFAULT RATE

The default rate² of the Export-Import Bank through June 30, 2015 is 0.243 percent as shown in Exhibit 1. This rate reflects a "total amount of required payments that are overdue" (claims paid on guarantees and insurance transactions plus loans past due) equal to \$325.8 million divided by a "total amount of financing involved" (disbursements)³ equal to \$133.9 billion. This financing amount is different from Ex-Im Bank's current exposure because it includes repayments and excludes authorized amounts that have yet to disburse.

Exhibit 1: Default Rate



¹ The data used to produce this report is generated from a new financial management system and from the same source accounting systems that produced the Bank's previous annual audited financial statements. Although the auditors do not express an opinion on the effectiveness of the Bank's systems, the data used to support the financial statements is tested for accuracy on a sample basis. The Bank has received an unqualified opinion since 1999 regarding the presentation of the Bank's financial statements.

² This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.

³ The default rate is based on disbursements (not authorized amounts) as a default cannot occur on a transaction that has been authorized but not yet disbursed.

Default Rate

CONGRESSIONAL INTENT

In discussions with the House Financial Service Committee (HFSC) related to the reauthorization requirement on the monitoring of the default rate, the committee members cited Chairman Hochberg's testimony as the type of information required by this authorization language. In his testimony on May 24, 2011 before the HFSC, the Chairman stated "as a result of our diligent review and management of credit, the Bank has a loan loss rate⁴ [default rate] of roughly 1.5 percent – well below most commercial banks." That testimony is based on the Bank's historical experience on overall financed disbursements compared to net claims which included both recoveries as well as expenses. This report is consistent with the Chairman's testimony as it related to the default rate.

DEFINED

Section 6 of the Reauthorization Act mandates Ex-Im Bank to calculate the "default on a payment obligation... by dividing the total amount of the required payments that are overdue by the total amount of the financing involved." The "total amount of required payments that are overdue",

$$\text{Overdue Payments} = \text{Defaults Paid} + \text{Expenses} - \text{Recoveries}$$

$$\text{Total Financing} = \frac{\text{Disbursements (Active)}}{\text{(Active)}}$$

representing the numerator, is defined as claims paid on guarantees and insurance transactions as well as unpaid past due installments on loans in the Bank's active portfolio. For guarantees and insurance transactions, upon default of a payment obligation⁵, Ex-Im Bank pays a claim to the guarantors or the insured parties. As this report is based on the Bank's portfolio through June 2015, all expenses incurred related to the Bank's recovery efforts are added to the amount overdue. Recoveries to that point reduce the amount overdue in connection to the specific claim paid or the loan in arrears. All recovered amounts are discounted to the time of claim payment or when the direct loan went into arrears. The "total amount of financing involved," the denominator, is defined as the disbursed⁶ financing under the Bank's programs to support U.S. exports. Ex-Im Bank provides financing to foreign buyers of U.S. goods and services. After a credit is approved, the value of the goods and services financed by Ex-Im Bank is recorded once they are delivered (or disbursed) to the buyer. Depending on the type of goods and services financed, the delivery (or disbursement) can occur over a period of years.

ACTIVE PORTFOLIO

Ex-Im Bank's credits have a defined repayment schedule that generally ranges from one year to fifteen years or more. Most credits have quarterly or semi-annual repayment terms; however, repayment terms can vary among Ex-Im Bank's programs and products. A disbursed loan, guarantee or insurance policy that has a repayment schedule where the date of this report is before the final repayment date of the

Active Credit Example: A long term guarantee authorized in FY 2007 with a 10 year repayment term (the deal matures in FY 2017)

Inactive Credit Example: A long term guarantee in FY 1994 with a 10 year repayment term (the deal matured in FY 2004)

⁴ The loan loss rate does not include the fees that the Bank charges for the transaction that it finances.

⁵ Upon receipt of request for a claim payment by the lending institution, Ex-Im Bank performs claim procession functions.

⁶ Disbursements include loans, guarantees and insurance.

schedule is part of the active portfolio. Any installment due within that repayment schedule up to the date of this report that has not been paid is considered to be in default.

On the Bank's active portfolio, a total of \$133.9 billion of goods and services¹ have been delivered to foreign buyers of American made products. These products are supported by Ex-Im Bank's loan, guarantees and insurance programs. Of this amount, the Bank has gross defaults of \$344.7 million, incurred expenses related to those payments of \$2.2 million, and recovered \$21.0 million for net defaults of \$325.8 million. This results in a default rate through the time period ending June 2015 equal to 0.243 percent.

¹ This includes local costs, capitalized interest during construction, and foreign content derived from co-financing and short-term commitments.



Default Rate

DEFAULT RATE: BY SUB CATEGORY

Section 6 of the Reauthorization Act requires:

"(2) ADDITIONAL CALCULATION BY TYPE OF PRODUCT, BY KEY MARKET, AND BY INDUSTRY SECTOR; REPORT TO CONGRESS.—"

As mandated by the Reauthorization Act and defined above, Ex-Im Bank has calculated default rates based on each sub category as of June 30, 2015.

BY REGION

Ex-Im Bank breaks out its transactions into six regions: Africa, Asia, Europe, Latin America/Caribbean, North America, Oceania, and other. As shown in Exhibit 2, Ex-Im Bank's default rate is below 2 percent within each of these regions.

Exhibit 2: By Region



BY PRODUCT LINE

Ex-Im Bank's loans, guarantees and insurance, are broken out by separate products: Long Term Guarantees (LG), Long Term Loans (LL), Medium Term Guarantees (MG), Medium Term Insurance (MI), Medium Term Loans (ML), Short Term Insurance (SI) and Working Capital Guarantees (WC). In general, Short Term Insurance and Working Capital Guarantees transactions are less than 1 year, Medium Term Loan and Guarantee transactions are between 1 and 7 years and under \$10 million and finally, Long Term Loan and Guarantee transactions are over 7 years or over \$10 million.

Exhibit 3: By Product Line



As shown in Exhibit 3, all products except the Medium Term Guarantee and Medium Term Insurance have a default rate below 2 percent. As a result, the Bank has taken steps to improve the medium term portfolio. First, the Bank has moved to using underwriting standards similar to those of the long term portfolio, which includes but is not limited to requiring collateral. The Bank has also established a monitoring group for this portfolio to proactively restructure distressed deals and prevent defaults or enhance recoveries. Finally, the Inspector General has significantly increased actions against fraudulent cases. As a result of the Bank's actions, the default rates for both Medium Term Guarantee and Medium Term Insurance products have declined from 7.13 percent and 9.40 percent, respectively, in June 2012, to 2.86 percent and 3.08 percent, respectively, as of June 30, 2015. It should also be noted that Medium Term Guarantees and Insurance represent 1.50 percent of the total amount of Ex-In Bank financing.

Exhibit 4: Medium Term Guarantees (Recent Cohorts)



Medium Term Insurance (Recent Cohorts)



The performance of the medium term products can be attributed to high defaults three to seven years ago. After implementing the above referenced changes in underwriting and monitoring practices, Ex-In Bank has begun to see its medium term portfolio's default rate improve dramatically. For medium term products, defaults normally occur by the third year. This means FY 2011 authorizations act as a good proxy for future trends in the medium term products. As shown in Exhibit 4, for all transactions approved since FY 2011, the medium term portfolio, including both active and matured transactions, default rates have, on average, dropped below 2 percent except for a few cohorts slightly above the threshold.

BY INDUSTRY

Ex-Im Bank's four largest industries are: Air Transportation, Manufacturing, Oil & Gas, and Power Projects⁵. Although these sectors account for 88.7 percent of the total amount of Ex-Im Bank financing, they have experienced a default rate below 2 percent as shown in Exhibit 5.

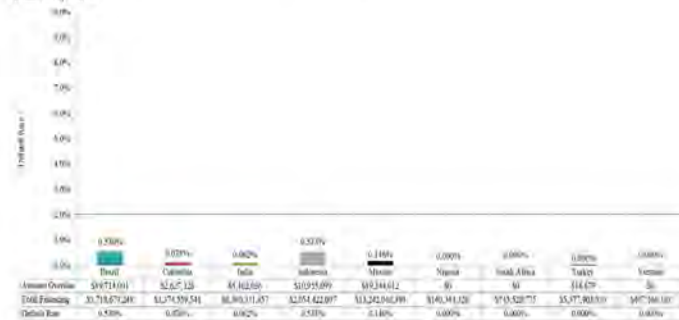
Exhibit 5: By Industry



By KEY MARKETS

Ex-Im Bank has exposure in more than 178 countries as of June 30, 2015. In FY 2010, Ex-Im Bank launched a strategic review to determine the countries where Ex-Im Bank financing could be particularly effective for American companies. Given limited business development resources, the Bank focused outreach efforts to parts of the world with the greatest potential to support U.S. exports. The Bank identified nine high potential countries: Mexico, Brazil, Colombia, Turkey, India, Indonesia, Vietnam, Nigeria and South Africa.⁶ As shown in Exhibit 6, all nine key markets have experienced a default rate well below 2 percent.

Exhibit 6: Key Markets



⁵ Formally named "Aircraft", "Mining - Oil & Gas" and "Utilities - Power Projects" respectively.

⁶ In FY 2014, Ex-Im Bank revised outreach efforts to focus on key sectors.

DEFAULT RATE: BY MANDATE

Ex-Im Bank has congressional mandates to support Small Business, Environmentally Beneficial, and Sub-Saharan Africa transactions. These mandates account for 11.03 percent of the total amount of Ex-Im Bank financing. All Mandates have experienced a default rate well below 2 percent as shown in Exhibit 7.

Exhibit 7: Mandates



Notes: "Sub-Saharan Africa" and "Small Business" categories include all transactions up to and including 100 percent while the "100% Sub-Saharan Africa" and "100% Small Business" categories only include transactions that are 100 percent.

RISK RATING: BY MANDATE

Ex-Im Bank risk rates its portfolio using a 1 – 11 budget cost level (BCL) scale. The ratings are based, in general, on a borrower's (1) ability to make payments, as indicated by relevant economic factors and (2) willingness to pay, as indicated by payment record and political and social factors. Four categories, ratings 1 through 4, are roughly equivalent to "creditworthy" or "investment grade" private bond ratings. Three categories, ratings 9 to 11, are for countries either unable to pay fully, even with extended repayment periods, or currently unwilling to make a good faith effort. Ex-Im Bank does not use the BCL scale for the working capital and multi-buyer products as the Bank uses a portfolio analysis approach to evaluate these programs.

Using the BCL at time of authorization and the authorized amount, Ex-Im Bank's active portfolio's weighted average risk rating is 3.46, corresponding to an investment grade portfolio. In the chart below are the weighted average BCL for the various Bank mandates.

Category	Budget Cost Level
Sub-Saharan Africa	5.68
100% Sub-Saharan Africa	5.68
Small Business	3.40
100% Small Business	3.62
Environmentally Beneficial	3.82
Active Portfolio	3.46

Aging Report

AGING REPORT: SUMMARY

The Aging Report covers medium- and long-term credits that have principal payments in arrears that are not otherwise covered in the default rate. For insurance and guarantees, the aging report captures overdue principal payments for which the Bank has not paid a claim. Loan arrears account for principal payments that have been in arrears for less than 30 days. Principal payments that have been in arrears for more than 30 days are captured in the default rate. As of June 30, 2015, a total of approximately \$7.0 million in principal payments for medium- and long-term credits are in arrears. Of that total, nearly \$3.0 million of loan principal payments have been in arrears for less than 30 days.

74% of Insurance & Guarantee Arrears are Cured

Historically, a large majority of principal arrears are eventually cured (i.e. payment is received.) For each of the two previous fiscal years, approximately 74 percent of insurance and guarantee arrears have been cured.

CREDITS IN ARREARS

Guarantees & Insurance in Arrears		Loans in Arrears	
Days Overdue	Amount Overdue	Days Overdue	Amount Overdue
Less Than 30 Days	\$94,106	Less Than 30 Days	2,958,412
30 to 60 Days	84,681	30 to 60 Days	N/A
60 to 90 Days	1,719,912	60 to 90 Days	N/A
90 to 150 Days	1,630,434	90 Days or More	N/A
Total	4,029,133	Total	2,958,412

INSURANCE & GUARANTEES

As of June 30, 2015, \$4.0 million in principal payments for medium- and long-term insurance and guarantees are in arrears, and \$94,106 worth of principal payments (or 14.7 percent of total arrears) is less than 30 days overdue.

DIRECT LOANS

As of June 30, 2015, approximately \$3.0 million in principal in principal installments for active direct loans were in arrears for less than 30 days.

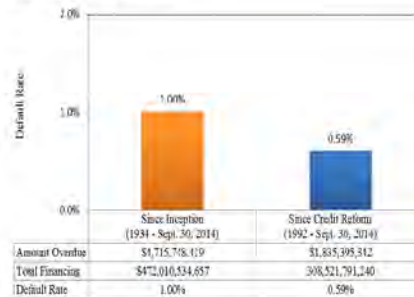
Historical Default Rates

HISTORICAL DEFAULT RATE

Ex-Im Bank was established in 1934. Since then, the Bank has disbursed \$472.0 billion in guarantees, insurance and direct loans. On all of Ex-Im Bank's disbursements, the Bank has defaults¹⁰ of \$13.0 billion and recoveries of \$8.3 billion, resulting in a historical default rate of 1.00 percent.

Looking at more recent experience, on credits authorized since 1992, the start of Federal Credit Reform Act (FCRA), the Bank has defaults of \$6.1 billion and recoveries of \$4.3 billion, resulting in a default rate of 0.59 percent. The Bank has historically collected more than 50 cents on the dollar for claims paid. Ex-Im Bank's historical default rates since 1934 and since 1992 are highlighted in Exhibit 8.

Exhibit 8: Historical Default Rate



COMPONENTS OF HISTORICAL DEFAULT RATE: CALCULATION

	Since Inception (1934 - Sept. 30, 2014)	Since Credit Reform (1992 - Sept. 30, 2014)
Total amount of required payments that are overdue	\$4,715,748,419	\$1,835,395,342
Defaults	13,048,717,322	6,154,193,864
Less Recoveries	8,337,968,903	4,318,798,521
Total amount of financing involved	\$472,010,534,657	\$308,521,791,240
Disbursements	472,010,534,657	308,521,791,240
Default Rate	1.00%	0.59%

¹⁰ This includes claims paid on guarantees and insurance transactions as well as direct loans in arrears and write-offs. It also includes non-discounted recovery amounts but does not include any recovery expenses as that data was not available for this time frame.

Stress Tests

In addition to measuring the current default rate, Ex-Im Bank also examined the current portfolio to measure the future default rate under stressed scenarios. Ex-Im Bank performs regular stress testing of its portfolio to identify how the current portfolio may perform in the future under stressed scenarios. As the Basel Committee on Banking Supervision states, "Stress testing is an important risk management tool that is used by banks as part of their internal risk management." The following section describes what stress testing is, why it is important, how to do stress testing, Ex-Im Bank stress test protocol, and recent results from Ex-Im Bank's stress tests.

WHAT IS STRESS TESTING?

A simple definition of stress testing comes from the Federal Deposit Insurance Corporation in a Supervisory Insights article, where they say, "Stress testing is a forward-looking quantitative evaluation of stress scenarios that could impact a banking institution's financial condition and capital adequacy." The Federal Reserve has a similar definition where they state in their Guidance on Stress Testing for Banking Organizations with Total Consolidated Assets of More Than \$10 Billion, "For purposes of this guidance, stress testing refers to exercises used to conduct a forward-looking assessment of the potential impact of various adverse events and circumstances on a banking organization." There are two main points from these definitions. First is that stress testing is forward looking and second is that there are multiple stressed scenarios that could impact the current portfolio and current default rates.

WHY IS STRESS TESTING IMPORTANT?

Ex-Im Bank follows a formalized stress testing protocol. Consistent with Federal Reserve guidance, the Bank's stress testing builds capacity to understand the Bank's risks and the potential impact of stressful events and circumstances on the Bank's financial condition. Stress testing is an important tool for portfolio management and risk mitigation. Furthermore, the International Monetary Fund in a paper about stress testing European banks, "Stress testing has become an essential and very prominent tool in the analysis of financial sector stability and development of financial sector policy." The World Bank concurs with these other organizations when it states in a paper entitled Macprudential Stress Testing of Credit Risk, "Regular stress testing of the financial system is the main tool of macroprudential monitoring." Finally, Ex-Im Bank's Inspector General has opined on this subject and recommended that "Ex-Im Bank should develop a systematic approach to stress testing and should conduct stress testing at least annually as part of its re-estimate process." Based on industry best practices and Ex-Im's commitment to a comprehensive risk management framework the Bank has implemented a stress testing protocol.

HOW DOES STRESS TESTING WORK?

In a report by the International Association of Credit Portfolio Managers entitled, "Sound Practices in Credit Portfolio Management" there were two overarching recommendations for portfolio stress testing. The first was:

The institution should have a "top down" stress-testing process in place to analyze the impact of extreme economic events on the credit risk of the overall credit portfolio.

The second recommendation was:

The institution should supplement the “top down” approach with a “bottom up” stress testing process to measure the impact of adverse events on obligors, or sets of obligors, with significant exposures in the credit portfolio.

This paper was also cited in Ex-Im Bank Inspector General’s report on the Bank’s portfolio risk as a model to follow.

EX-IM BANK STRESS TESTING PROTOCOL

Ex-Im Bank looked at different ways to perform both a top down analysis on the entire portfolio as well as a bottom up approach on certain sets of obligors. For the top down stress test the Bank decided to use a monte-carlo simulation approach, consistent with best practice. This approach allows the Bank to look at numerous scenarios. The Society of Actuaries in a report entitled *Effective Stress Testing in Enterprise Risk Management* cited that “the Monte Carlo simulation is one of the most widely used methods of stress testing.”³ This allows the Bank to use a forward looking approach that looks at numerous scenarios. The simulation takes every transaction in the Bank’s exposure and simulates whether it defaulted or not during the remainder of its term, based on the Bank’s most current loss rate model. In the default simulation, the total default amount less recoveries is calculated. This loss rate model has been recently reviewed by the Government Accountability Office and the Office of Management and Budget, as well as audited by Deloitte & Touche and KPMG. Each portfolio simulation takes every transaction and sums their respective default amounts. The total is the Bank’s loss for that simulation. The Bank then runs this same simulation 20,000 times to create a distribution of possible losses. There are a variety of outcomes and by creating a distribution it allows the Bank to look at the extreme tails of the distribution to see how the portfolio performs at its worst. This basically means that the Bank looked at 20,000 different lives of the portfolio. In some lives perhaps many more defaults occur than expected, others have fewer defaults than expected. By running so many different lives of the portfolio the Bank can isolate those times where many more defaults occur and look at the impact. The Bank is also able to put probabilities around the chance that these events could occur. Furthermore, the Bank looked at the results of these scenarios if NO recoveries occur. This is an extreme scenario as the Bank regularly collects more than 50 cents on the dollar for claims paid. Recoveries do take time and this scenario can show what the stressed default rate could reach with no recoveries, albeit temporarily.

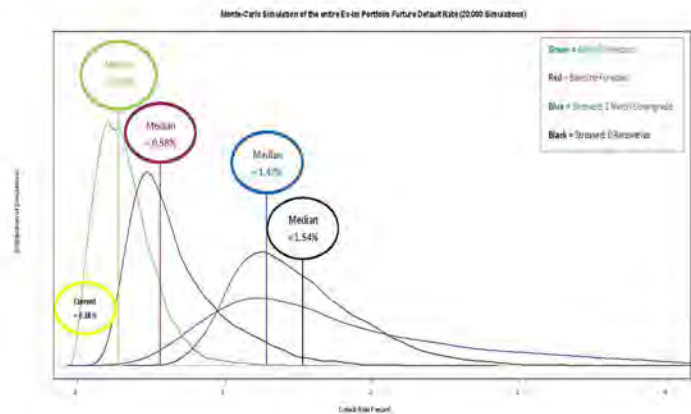
Next, for the bottom-up approach, the Bank looked at some of its largest obligors and using applicable data from the Federal Reserve’s Comprehensive Capital Analysis and Review (CCAR) adverse and severely adverse scenarios. These scenarios were applied to the particular obligors and for the adverse scenario the average risk rating, which measure the risk of each obligor similar to a Moody’s or S&P credit rating but using a 1-8 scale. The Bank measured the impact on these obligors under the adverse and severely adverse scenario, resulting in a 1.2 notch and 2.5 notch downgrades, respectively. In effect, this would increase the riskiness for a typical transaction by 30 percent for adverse scenarios and 63 percent for severely adverse scenarios.

Next, the Bank ran another 20,000 trial simulations of the entire portfolio, but this time, based on the results of the obligor specific stress tests, each obligor was downgraded by two notches. This effectively moves an A1 rated credit to a Baa3 credit or a Baa3 to a Ba3 on the Moody’s scale. These various scenarios allow the Bank to look at its risk profile from a variety of perspectives and helps the Bank ascertain the current risk within the portfolio.

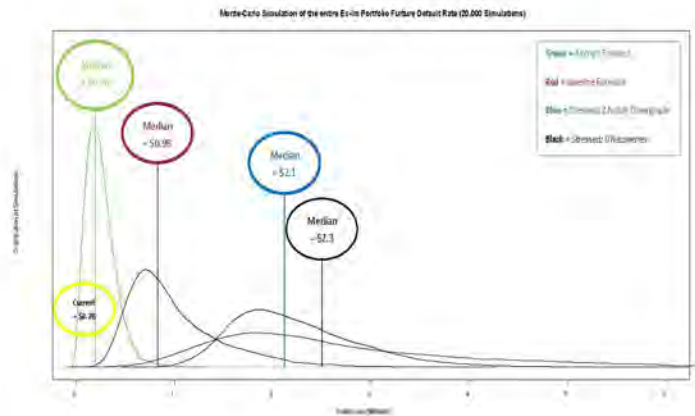
EX-IM BANK STRESS TESTING RESULTS

The results of the Bank's 20,000 trial monte-carlo simulation can be seen in the graph below. Under the baseline forecast the median default rate for the current portfolio is 0.58 percent with a 95 percent confidence level that it will be at 1.30 percent or lower. Under a stressed scenario where all of the ratings were downgraded by 2 notches, the median default rate would increase to 1.42 percent with a 95% confidence level that the default rate would be below 2.28 percent. Finally, under a stressed scenario where none of the defaults were ever recovered the median default rate would be 1.54 percent, with a 95 percent confidence level that it would be below 3.54 percent. The median values under each of the two stressed scenarios are still under 2 percent.

An addition to this year's stress test was the addition of stress testing the aircraft portfolio. The entire aircraft portfolio, which consists of commercial, agricultural, and corporate aircraft as well as helicopters, has a current default rate of 0.01 percent. Under the baseline forecast for the current aircraft portfolio the median default rate is 0.29 percent. This rate increases to 0.68 percent at the 95 percent confidence level.



In addition to calculating the percentages, which is on the same scale as the default rates discussed earlier in this report, the Bank calculated the total dollar loss of this distribution. The current amount overdue for the portfolio is \$0.2 billion. Under the baseline forecast the median loss amount for the current portfolio is \$0.9 billion. Under a stressed scenario where all of the ratings were downgraded by 2 notches, the median loss amount would increase to \$2.1 billion, and a stressed scenario where none of the defaults were ever recovered the median loss amount would be \$2.3 billion. For the aircraft portfolio, the median loss amount would be \$0.2 billion.



These results are comparable to the results from last year's stress test. The median under the baseline forecast last year was 0.59 percent which was one basis point above FY 2013. For FY 2014, the stress of the stressed zero recovery scenario at the 95 percent confidence level is 3.54 percent, which is nine basis points lower than the 3.63 percent calculated FY 2013. This is consistent with the Bank's experience over the past year in which few defaults have occurred.

EX-IM BANK FUTURE STRESS TESTING

Ex-Im Bank is committed to continuous improvement and is always looking to improve stress testing. The Bank stress tested the aircraft portfolio and will continue to look into other industries and regions where it has large exposures. The Bank used the definition of a large exposure from the Basel Committee's Core Principles for Effective Banking Supervision. In those core principles the committee states, "ten per cent or more of a bank's capital is defined as a large exposure." The Bank will be able to see if certain industries or region have a higher risk profile in the tails of its distribution along with its expected default rate. The Bank is also looking into the impact of correlation within industries and regions it is concentrated. These tests will inform the Bank as to the extent of this impact on potential future losses. During the year the Bank will look for additional ways to improve its stress testing methodology. The Bank will continue to report the results of these future stress test scenarios to the U.S. Congress.

Appendix

COMPONENTS OF DEFAULT RATE: DISBURSEMENTS

Under the direct loan program the goods and services are financed directly by Ex-Im Bank. Funds are disbursed to the supplier to pay for the goods or services delivered to the buyer and a loan receivable with appropriate loss reserves are reflected on the Bank's books.

Under the guarantee and insurance programs, the private sector provides the financing and the transaction is guaranteed or insured by Ex-Im Bank. The guaranteed or insured party notifies Ex-Im Bank when a shipment of goods has occurred and Ex-Im Bank records a non-cash "disbursement" to reflect the value of the goods guaranteed by Ex-Im Bank. An appropriate loss reserve is also recorded on the Bank's books.

As of June 2015, on the Bank's active portfolio, a total of \$133.9 billion of goods and services have been delivered to foreign buyers and supported by Ex-Im Bank under the loan, guarantee and insurance programs.

COMPONENTS OF DEFAULT RATE: GROSS DEFAULTS

Ex-Im Bank pays claims honoring the terms of either the guarantee or the insured transaction. On Ex-Im Bank's active portfolio, the Bank has paid out \$147.9 million in defaults. For loans, all monies past due are considered defaults. As of June 2015, for the active portfolio, \$196.7 million is past due. This totals \$344.7 million in claims paid and overdue loans.

The gross default rate is derived from the amounts paid on guarantees and insurance transactions as well as past due loan installments divided by the amount disbursed. This rate does not include the money recovered or related recovery expenses. On the \$133.9 billion of disbursements, the Bank has gross defaults of \$344.7 million, resulting in a default rate of 0.257 percent.

COMPONENTS OF DEFAULT RATE: RECOVERIES AND EXPENSES

Ex-Im Bank has an active recovery group that seeks to recuperate on losses related to claim payments and non-performing loans. On Ex-Im Bank's active portfolio, the Bank has recovered \$21.0 million and incurred \$2.2 million of expenses related to the recovery process.¹¹ These recoveries, as well as fees collected from borrowers, are used to offset claims paid. The Bank expects to recover additional amounts on these transactions in future years.

COMPONENTS OF DEFAULT RATE: CALCULATION

Total amount of required payments that are overdue	\$325,803,130
Gross Defaults Paid	344,669,526
Expenses	2,165,736
Less Recoveries	21,032,131
Total amount of financing involved	\$133,870,541,182
Disbursements	133,870,541,182
Default Rate	0.243%

¹¹ For the purpose of calculation of the default rate, the amounts recovered are discounted to the time of claim payment.

DEFAULT RATE: BY COUNTRY

	<u>Financing</u>	<u>Claim Paid</u>	<u>Recovery</u>	<u>Expenses</u>	<u>Overdue</u>	<u>Default</u>
Africa	\$8,015,587,191	\$13,000,885	\$1,255,554	\$665,391	\$12,410,722	0.15%
Algeria	227,172,784	-	-	-	-	0.00%
Angola	758,166,443	-	-	8,071	8,071	0.00%
Cameroon	37,216,132	-	-	-	-	0.00%
Congo, Democratic Rep.	1,425,000	-	-	-	-	0.00%
Egypt	684,975,305	4,933,602	25,558	101,513	5,009,562	0.73%
Ethiopia	2,467,409,156	-	-	-	-	0.00%
Gabon	8,383,593	215,946	-	-	215,946	2.58%
Ghana	448,122,447	2,112,840	14,236	117,569	2,216,173	0.49%
Kenya	1,439,990,535	-	-	46,458	46,458	0.00%
Liberia	31,069	-	-	-	-	0.00%
Mauritius	4,315,810	359,352	-	-	359,352	8.33%
Morocco	1,010,663,170	-	-	-	-	0.00%
Mozambique	1,011,945	-	-	-	-	0.00%
Nigeria	140,344,326	-	-	-	-	0.00%
Senegal	34,937,108	5,379,146	1,215,760	391,775	4,555,161	13.04%
South Africa	745,528,775	-	-	-	-	0.00%
Tanzania	3,851,527	-	-	-	-	0.00%
Uganda	290,819	-	-	-	-	0.00%
Zambia	1,751,242	-	-	-	-	0.00%
Asia	56,305,084,293	138,157,841	17,953,551	841,387	121,045,677	0.21%
Azerbaijan	126,509,369	-	-	-	-	0.00%
Bahrain	336,547,758	-	-	-	-	0.00%
Bangladesh	536,495,580	-	-	-	-	0.00%
China	5,413,162,301	-	-	2,359	2,359	0.00%
Cyprus	540,000	-	-	-	-	0.00%
Hong Kong	3,938,327,865	-	-	-	-	0.00%
India	8,380,331,857	5,070,362	-	91,674	5,162,036	0.06%
Indonesia	2,054,422,097	10,955,099	-	-	10,955,099	0.53%
Iraq	6,553,155	-	-	-	-	0.00%
Israel	842,381,484	-	-	-	-	0.00%
Japan	278,919,206	104,094	-	-	104,094	0.04%
Jordan	312,313	-	-	-	-	0.00%
Kazakhstan	777,628,307	78,356,929	17,953,551	267,383	60,670,761	7.80%
Korea, South	6,094,974,679	-	-	264,710	264,710	0.00%
Kuwait	625,642,930	-	-	-	-	0.00%
Lebanon	347,947	-	-	-	-	0.00%
Malaysia	93,114,725	-	-	-	-	0.00%
Mongolia	77,451,941	-	-	-	-	0.00%
Oman	114,845,646	-	-	-	-	0.00%
Pakistan	1,111,684,239	43,671,353	-	74,234	43,745,591	3.94%
Philippines	562,826,873	-	-	-	-	0.00%

	<u>Financing</u>	<u>Claim Paid</u>	<u>Recovery</u>	<u>Expenses</u>	<u>Overdue</u>	<u>Default</u>
Qatar	1,008,000,000	-	-	20,057	20,057	0.00%
Saudi Arabia	6,195,010,891	-	-	58,713	58,713	0.00%
Singapore	2,594,743,409	-	-	-	-	0.00%
Sri Lanka	41,970,306	-	-	-	-	0.00%
Taiwan	1,082,270,172	-	-	-	-	0.00%
Tajikistan	80,000,000	-	-	-	-	0.00%
Thailand	1,286,880,397	-	-	-	-	0.00%
Turkey	5,377,903,939	-	-	18,879	18,879	0.00%
United Arab Emirates	6,704,782,401	-	-	-	-	0.00%
Uzbekistan	152,936,122	-	-	43,379	43,379	0.03%
Vietnam	407,166,383	-	-	-	-	0.00%
Europe	19,256,291,268	3,572,364	-	143,014	3,715,379	0.02%
Albania	36,737,164	-	-	52,233	52,233	0.14%
Austria	427,158,747	-	-	-	-	0.00%
Belgium	12,235,955	-	-	-	-	0.00%
Bulgaria	44,378,893	-	-	-	-	0.00%
Czech Republic	76,818,942	-	-	-	-	0.00%
Denmark	177,467	-	-	-	-	0.00%
Estonia	65,072	-	-	-	-	0.00%
France	71,243,557	-	-	-	-	0.00%
Germany	1,218,377,126	138,899	-	138,899	138,899	0.01%
Greece	4,362,474	-	-	-	-	0.00%
Hungary	68,520,000	-	-	-	-	0.00%
Iceland	90,000	-	-	-	-	0.00%
Ireland	7,403,831,418	-	-	49,148	49,148	0.00%
Italy	2,606,101	-	-	-	-	0.00%
Latvia	4,552	-	-	-	-	0.00%
Luxembourg	1,948,763,429	-	-	-	-	0.00%
Netherlands	2,264,121,372	-	-	-	-	0.00%
Norway	1,466,846,472	-	-	-	-	0.00%
Poland	480,092,776	-	-	-	-	0.00%
Romania	193,799,089	-	-	41,634	41,634	0.02%
Russia	1,556,130,389	714,980	-	714,980	714,980	0.05%
Serbia	1,100,600	-	-	-	-	0.00%
Slovak Republic	67,139,509	-	-	-	-	0.00%
Slovenia	8,555,516	-	-	-	-	0.00%
Spain	476,374,166	-	-	-	-	0.00%
Switzerland	78,370,223	-	-	-	-	0.00%
Ukraine	294,615,555	2,718,485	-	2,718,485	2,718,485	0.92%
United Kingdom	1,053,574,703	-	-	-	-	0.00%

	<u>Financing</u>	<u>Claim Paid</u>	<u>Recovery</u>	<u>Expenses</u>	<u>Overdue</u>	<u>Default</u>
Latin Am./Carib.	27,542,492,166	47,712,971	1,794,235	412,644	46,331,380	0.17%
Argentina	181,263,029	3,555	-	-	3,555	0.00%
Barbados	4,669,561	-	-	-	-	0.00%
Brazil	3,718,679,248	20,044,429	434,512	104,084	19,714,001	0.53%
Cayman Islands	80,312,097	-	-	-	-	0.00%
Chile	3,098,809,738	2,279,977	19,479	26,952	2,287,449	0.07%
Colombia	3,374,559,541	2,627,990	2,309	1,446	2,627,128	0.08%
Costa Rica	102,091,248	-	-	-	-	0.00%
Dominican Republic	573,841,169	2,017,489	4,238	785	2,014,036	0.35%
Ecuador	63,887,506	-	-	-	-	0.00%
El Salvador	21,517,300	-	-	-	-	0.00%
Guatemala	18,352,060	-	-	-	-	0.00%
Honduras	196,123,740	-	-	-	-	0.00%
Jamaica	26,117,231	-	-	-	-	0.00%
Mexico	13,242,048,394	19,783,187	653,049	213,875	19,344,012	0.15%
Nicaragua	2,829,216	-	-	-	-	0.00%
Panama	1,139,639,735	-	-	47,756	47,756	0.00%
Paraguay	13,974,523	-	-	-	-	0.00%
Peru	791,479,120	-	-	9,608	9,608	0.00%
St. Vincent And Grenadines	3,334,391	-	-	-	-	0.00%
Trinidad And Tobago	116,072,454	-	-	-	-	0.00%
Turks And Caicos	2,029,809	956,344	680,648	-	275,696	13.53%
Uruguay	134,284,051	-	-	-	-	0.00%
Venezuela	620,904,685	-	-	8,139	8,139	0.00%
Virgin Islands (British)	15,672,320	-	-	-	-	0.00%
North America	11,358,256,158	294,101	-	44,580	338,681	0.00%
Canada	3,928,164,101	-	-	44,580	44,580	0.00%
Private Export Funding Corp.	1,759,442,507	-	-	-	-	0.00%
United States	5,670,649,550	294,101	-	-	294,101	0.01%
Oceania	8,640,226,428	139,111,999	-	58,719	139,170,718	1.61%
Australia	5,317,973,631	139,111,999	-	58,719	139,170,718	2.62%
New Zealand	717,686,563	-	-	-	-	0.00%
Papua New Guinea	2,604,566,235	-	-	-	-	0.00%
Other	2,752,603,679	2,819,364	28,791	-	2,790,573	0.10%
Various - Insurance	2,303,974,070	2,819,364	28,791	-	2,790,573	0.12%
Various - Unallocable	448,629,609	-	-	-	-	0.00%
Grand Total	133,870,541,182	344,669,526	21,032,131	2,165,736	325,803,130	0.243%

Definitions

Active Portfolio – Maturity date is after the date of this report (transaction currently active)

Administrative Expenses – Expenses of the day to-day operation of the Bank. Majority of expenses are compensation and benefits. Does not include program costs

Allowances – Accumulated provisions against which future loan write-offs would be made

Defaults – Payment from Ex-Im Bank to guaranteed or insured party plus unpaid past due loan installments

Default Rate – Defaults less recoveries plus expenses over total amount financed on active portfolio

Disbursements – Goods and services delivered to foreign buyers and supported by Ex-Im Bank under the loan, guarantee and insurance programs

Loan Arrears – Direct loan repayment currently overdue. For defaulted credits, this includes the entire amount outstanding. For rescheduled sovereign credits, this includes the underlying credits which are still active based upon the original payment terms

Nominal Discount Rates – A forecast of nominal or market interest rates for the current year based on the economic assumptions for the following Fiscal Year Budget as presented by the Office of Management and Budget in Circular A-94 Appendix C

Recoveries – Money recovered on guarantees and insurance that have defaulted and a claim has been paid out. For direct loans in arrears, this includes funds recovered after missed payments

Program Costs – Cost related to loan, guarantee, and insurance transactions where the fees are insufficient to cover prudent reserves

Mandates

Environmentally Beneficial Mandate - Congress states: "That not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to the Export-Import Bank under this Act should be used for zero carbon renewable energy and energy efficient end-use technologies."⁷

Small Business Mandate - Congress states: "Ex-Im Bank shall make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports directly by small business concerns (as defined under section 3 of the Small Business Act) which shall be not less than 20 percent of such authority for each fiscal year."⁸

Sub-Saharan Africa Mandate - Congress states: "...take prompt measures, consistent with the credit standards otherwise required by law, to promote the expansion of the Bank's financial commitments in sub-Saharan Africa..."⁹

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

New Jersey Companies that have received Ex-Im financing since 2007

Global Reliance Inc
Orycon Control Technology Inc.
Westlock Controls Corporation
Protameen Chemicals Inc.
Plasma Powders & Systems Inc
Jason Mills, Llc
Amscott Structural Products Corp
Becton, Dickinson And Company
Radical Cosmetics, Llc
Atlantic Coast Crushers Inc
Cincinnati Thermal Spray Inc
Interworld Highway Llc
Parwan Electronics Inc
Air Cruisers Company Inc
K-Tron America, Inc.
Physical Acoustics Corp
Nus Consulting Group
Acustrip, Inc.
E&H Laminating & Slitting Co.
U S Radar Inc
Magnesium Elektron Inc
Thales Aviations Inc
Chori America, Inc.
Tower Systems Inc
Kenbay Llc
Northeast Controls
Btech Inc
Thortel Fireproof Fabrics, Inc.
B G Products, Llc
Cytec Industries, Inc.
Ballantine Laboratories Inc
Englert, Inc.
Rudolph Technologies Inc
Crown Wire & Cable Co Inc
Pace Packaging Corporation
Robert And Pat Engineering Inc
White Systems Inc.
Industrial Rivet & Fastener Co.
Princeton Center For Education Services Inc
Trademark Plastics Corporation
Eaton Hydraulics LLC
Chem Flowtronic Inc
Intercat Savannah, Inc.
Zeak and Harring, Inc.

Bp Bayway
 Inductotherm Corp
 Coperion Corporation
 International American Supermarkets Corporation
 Hollywood Usa Brands Corporation
 International Protein, Llc.
 Kason Corporation
 Pernadur Industries, Inc.
 John Dusenbery Company Inc.
 General Trading Co., Inc.
 Essential Dental Systems, Inc.
 Maersk Inc
 Enginecheckup
 A P Deauville, Llc
 Linker Equipment Corp
 Custom Alloy Corporation
 Prc Laser
 Amerisource Group Llc
 Rpa Advisors, Llc
 East Air Corporation
 Versa Products Co Inc
 Avante International Technology, Inc.
 Fleet Equipment Corp
 Acrison, Inc.
 Davion, Inc.
 Jet Pulverizer Co Inc
 Polymer Cleaning Technology Inc
 Fantasia Industries Corp
 Spectrex Inc
 Ingersoll-Rand Company
 Fluid Rx, Inc.
 Waltron Llc
 Alpine Corrugated Machinery
 National Environmental Services Company, Inc
 Fairfield Gourmet Food Corp.
 Patent Construction Systems
 United Energy Corporation
 Xylem Dewatering Solutions, Inc.
 Vitusa Corp.
 Helidex Offshore Llc
 Main Tape Company, Inc
 H. Betti Industries, Inc.
 Pamarco Technologies, Inc.
 Transweb Llc
 E. J. Brooks Company
 Dritac Flooring Products, Llc

C & W Unlimited Corp
 Qei, Inc.
 Rfi Electronics, Inc.
 Alzo International, Inc.
 Iedco Corp
 Capital Hardware Supply, Inc.
 Biotech Atlantic, Inc.
 Denaka Partners L P
 Cca Industries, Inc.
 Golden Metals Inc
 J & K Ingredients Inc.
 Standard Casing Company, Inc., The
 Rony Llc
 Diversified Imports Div Company Inc
 Coffin Turbo Pump, Inc.
 Kuhl Corp
 Resintech, Inc.
 Target Shipping Company Incorporated
 Elnik Systems
 Steinen, Wm Mfg Co (Inc)
 Epolin Inc
 Glaston Usa, Inc.
 Nucomm, Inc
 Smb International, Llc
 Htd Heat Trace Inc.
 Incoco Products Llc
 New York Exim Corporation
 Strahman Industries Inc
 Eaton Filtration Llc
 Sightlogix, Inc.
 Multi Fruit Usa, Inc
 Bridge Machine Co Inc
 Basf Corporation
 Blue Blade Steel
 Bioclimatic Air Systems, Llc
 Princeton Tectonics Inc
 Kessler-ellis Products Co. Inc.
 Unifide Industries Limited Liability Company
 Tinplate Purchasing Corporation
 Titanium Industries, Inc.
 Monmouth Rubber Corp
 General Glass Equipment Co (inc)
 Pathfinder L.l.c.
 Tonar Industries Inc
 Spectra Colors Corp
 W. R. Chesnut Engineering Inc.

Grobet File Company Of America, Inc.
 Light Age, Inc.
 Applied Nutrition Corp
 Ross International, Inc.
 Kii, Inc.
 Azer Auto Import Limited Liability Company
 Homasote Company (inc)
 Pkt Associates, Inc.
 Smc Solutions, Inc.
 Barex Resources, Inc.
 Binarytree.Com Inc.
 K & S Machinery Corporation
 Kalustyan Corp.
 National Food Trading Corp.
 Quintum Technologies, Inc
 Titanium Fabrication Corp
 Werner Aero Services, Llc
 Swim 'n' Play, Inc.
 Okonite Company Inc, The
 Teledynamics, L.L.c.
 Gluefast Company, Inc.
 Olam Americas Inc
 Imperial Dax Co., Inc.
 Axens North America, Inc.
 Radwell International Inc.
 Sigma Stretch Film
 A K Stamping Company Inc.
 Maresco International Corp
 Global Power Technology, Inc.
 Jesel, Inc.
 Excellentia Flavours, Llc
 Faran Resources, Inc.
 American Roll On Roll Off Carrier
 Prism International Inc
 Tristrata Company, Inc.
 Varioline Spare Parts Services, Inc.
 Chick Master International
 Netforensics, Inc.
 Arlington Machine & Tool Company
 Pva Mimech, Llc
 A C C I Inc
 American European Machinery Corp.
 Clofine Dairy Products, Inc.
 Edward B De Leo Co. Inc.
 Elementis Worldwide Inc.
 Fabritrak Systems, Inc

Cytosorbents Corporation
 Wearbest Sil-Tex Mills, Ltd.
 Collins And Company Llc
 American Medical Link, Inc.
 Epicore Networks (usa), Inc.
 Media Sciences Inc
 W H Industries
 Lipo Chemicals Inc.
 Formosa Plastics Corporation, U.S.A.
 Polymer Chemical Corporation
 Middle Atlantic Products Inc
 Honeywell International Inc.
 International Rollforms, Inc.
 Patriot Hardwoods Inc
 Inteplast Group, Ltd
 Alpha Associates, Inc
 Tgs Healthcare Solutions, Llc
 United States Metal Powders, Inc.
 May National Associates Of New Jersey Inc
 Amcs Corp
 Siemens Energy, Inc.
 Star Soap/star Candle/prayer Candle Co., Llc
 Ginsey Industries Inc
 Royson's Corporation
 Trans-atlantic Trading & Enterprise, Inc.
 Hoffman International, Inc.
 Diversified Foam Products, Inc.
 Anbakam Metals Llc
 Tekmark Global Solutions Llc
 Belsun Corp.
 A B B Lummus Global Inc
 Summit Radio Corp
 Global Commodities Group, Llc
 Gavilon, Llc
 Cardolite Corporation
 Vibration Mountings & Controls Inc
 Ampal Inc.
 Worldwide Supply Sa Llc
 Vish LLC
 Unex Corporation
 Lund's Fisheries, Inc.
 King Paper Ltd.
 Actega Kelstar, Inc.
 International Commodity Trading Inc.
 Wilmington Paper Corp
 Flexaber Corporation

Stull Technologies Inc.
Argo Turboserve Corporation
Ultra Additives (Inc)
United States Mineral Products Company
Sentry Aerospace Corp
Lummus Technology Inc
Str. Pan Ocean (America) Inc.
E.I. Browne Drug Co., Inc.
Siemens Financial Services, Inc.
Scientific Design Company
Te Connectivity Subsea Communications
Fornazor International, Inc.
Gaffney-Kroese Electrical Supply Corp.
Pmc Group, Inc.
Connell Company, The
Rastelli Brothers, Inc.